

# Report to Congress 2010







# Federal Housing Finance Agency

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June 13, 2011

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Chairman  
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United States Senate  
Washington, D.C. 20510

Honorable Richard C. Shelby  
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Committee on Banking, Housing,  
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Honorable Spencer Bachus  
Chairman  
Committee on Financial Services  
United States House of Representatives  
Washington, D.C. 20515

Honorable Barney Frank  
Ranking Member  
Committee on Financial Services  
United States House of Representatives  
Washington, D.C. 20515

Dear Chairmen and Ranking Members:

I am pleased to transmit the Federal Housing Finance Agency's (FHFA's) *Report to Congress*, which presents the findings of the agency's 2010 examinations of Fannie Mae and Freddie Mac (Enterprises), the 12 Federal Home Loan Banks (FHLBanks) and the FHLBank's Office of Finance. This report meets the requirements of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Housing and Economic Recovery Act of 2008 (HERA). FHFA is an independent regulatory agency, and the views in this report are its own.

Since being placed in conservatorships in September 2008, Fannie Mae and Freddie Mac each received composite examination ratings reflecting *critical supervisory concerns*. These ratings result from continuing credit losses in 2010 from loans originated during 2005 through 2007, as well as forecasted losses from loans originated during that time period that are yet to be realized. The examination findings described in this report identify key challenges facing each company, including but not limited to credit risk, operational risk, modeling risk, and retention of qualified leadership and personnel.

As a result of the conservatorships, federal government support, and an improved corporate governance structure, the Enterprises played a critical role in facilitating liquidity for single-family and multifamily housing. The Enterprises' share of new single-family mortgage production was more than 60 percent of the market in 2010.

Throughout 2010, FHFA continued to meet its obligation as conservator, which requires it to minimize credit losses to the Enterprises, which minimizes losses to the government. Although past business decisions leading to these losses cannot be undone, each Enterprise, under the oversight and guidance of FHFA as conservator and regulator, has improved underwriting standards for loan purchases in the past two years. The Enterprises minimized risk of future losses by strengthening underwriting standards and implementing a stronger pricing structure. Another way FHFA minimized losses was to require the Enterprises to enforce existing contractual representation and warranty loan repurchase agreements with lenders.

In addition to supervising the Enterprises, FHFA also has supervisory responsibility over the 12 Federal Home Loan Banks (FHLBanks) and the FHLBanks' Office of Finance, which is responsible for issuing and servicing debt securities on behalf of the FHLBanks.

All FHLBanks recorded positive annual earnings in 2010, though some FHLBanks recorded losses in individual quarters. At year end, all FHLBanks met the minimum statutory leverage capital requirement of 4 percent of total assets. Although the financial condition and performance of the FHLBanks generally stabilized in 2010, the FHLBanks continued to be negatively affected by exposure to private-label mortgage-backed securities (MBS) and declines in advances (loans to members). Net income increased in 2010 compared with 2009, but credit-related impairment charges on the FHLBanks' private-label MBS continued to limit System-wide earnings.

The FHLBanks ended 2010 with total assets of \$878.3 billion, down from \$1.02 trillion at the end of 2009. Advances remained the largest balance sheet item of the FHLBanks but declined to \$478.6 billion at year-end 2010, down from \$631.2 billion at year-end 2009. Recent demand for advances also has been constrained by weak national economic conditions and high levels of liquidity at member institutions.

In 2010, FHFA augmented its professional staff, hiring more examiners, accountants, and economists. FHFA intends to continue that trend in 2011. Also in 2011, FHFA is restructuring its examination staff to promote greater uniformity and consistency in the examinations of the Enterprises and the FHLBanks, while preserving the statutory separation between the roles of the Deputy Director for Enterprise Regulation and the Deputy Director for FHLBank Regulation.

The FHFA Office of Inspector General was created in 2010. In the last three months of 2010, the office began two audits, two evaluations, and six surveys reviewing how FHFA accomplishes its mission of safety and soundness for the housing government-sponsored enterprises (GSEs) and conserves and preserves the assets of Fannie Mae and Freddie Mac under the conservatorships.

I am very proud of the dedication of the FHFA staff for their hard work in carrying out the agency's mission during this time of extraordinary financial stress, complex regulatory and conservatorship responsibilities, and political uncertainty.

Yours truly,



Edward J. DeMarco

Acting Director, Federal Housing Finance Agency

# Federal Housing Finance Oversight Board Assessment

Section 1103 of the Housing and Economic Recovery Act (HERA) of 2008 requires that the Federal Housing Finance Agency (FHFA) Director’s annual Report to Congress include an assessment of the Federal Housing Finance Oversight Board or any of its members with respect to:

- the safety and soundness of the regulated entities;
- any material deficiencies in the conduct of the operations of the regulated entities;
- the overall operational status of the regulated entities; and
- an evaluation of the performance of the regulated entities in carrying out their respective missions.

FHFA’s *Report to Congress* reviews in detail the issues described above for Fannie Mae and Freddie Mac (Enterprises) and the Federal Home Loan Banks (FHLBanks).

## Enterprises

The Enterprises continue to operate under conservatorship, as they have since 2008. The U.S. Department of the Treasury provides the Enterprises with financial support through the Senior Preferred Stock Purchase Agreements established at the same time the Enterprises entered conservatorship. In 2010, the Enterprises’ losses totaled \$28 billion, and draws under the preferred stock agreements associated with those losses totaled \$28 billion. That was an improvement over the 2009 losses of \$93.6 billion and draws under the preferred stock agreements of \$66.1 billion. These losses and draws under the preferred stock agreements are the result of business decisions made by the Enterprises prior to being placed in conservatorship.

Each Enterprise has and will continue to realize credit losses from mortgages originated in the several years prior to conservatorship. While these past business decisions cannot be undone, each Enterprise, under the oversight and guidance of FHFA as conservator and regulator, is actively seeking ways to minimize these credit losses.



Given that the Enterprises have depleted all of their shareholders' equity and are operating with financial support from the Treasury, when considering safety and soundness, it is important to consider the risk of the Enterprises' operations since being placed into conservatorship. Since the Enterprises were placed into conservatorship, in compliance with FHFA guidelines to ensure conservation of assets and minimization of future loss, the Enterprises have tightened their underwriting standards.

As in 2009, the credit quality of new single-family guarantees remained high in 2010. Higher-risk mortgages, such as no-income documentation or interest only mortgages have largely been eliminated. The average loan-to-value ratio of mortgages acquired in 2010 remained below 70 percent, which was about 5 percentage points below the levels before conservatorship. Average FICO\* credit scores on new guarantees in 2010 remained 35 to 45 points higher than before conservatorship.

Each Enterprise also continues to pursue changes in their national guarantee fee pricing to correct for the under-pricing of credit risk in prior years and to reflect current risks in an environment of falling house prices and other factors. The Enterprises updated their pricing models several times in 2010, as they had in 2009, to reflect the changing market conditions, and will continue to evaluate pricing adjustments going forward.

The Enterprises have made progress in addressing material operational deficiencies in 2010; however, the Report of Examination of each Enterprise assigns a composite rating of critical concerns and describes a number of areas where additional work is needed to correct ongoing operational deficiencies. In particular, in 2010, the Enterprises made progress in improving the management of market and model risk.

Areas of concern and further work remain in the following areas: operational risk, as the result of significant loss mitigation activities and aging legacy systems architecture; and credit risk, arising from continued high delinquencies from the preconservatorship book of business as well as the weakened condition of house prices and other mortgage market participants. FHFA remains focused on addressing these areas of concern in 2011.

Consistent with their statutory missions, the Enterprises have maintained an ongoing significant presence in the secondary mortgage market, which has ensured that mortgage credit remains available. Both Enterprises also continue to play an important role in efforts to limit preventable foreclosures, both to mitigate Enterprise losses as well as enhance stability in housing markets and local communities. These efforts are essential to stabilizing the Enterprises. The Enterprises completed 950,000 alternative actions to foreclosure in 2010. Those actions included 575,000 loan modifications, three times the 2009 number.

FHFA completed rules on a new framework for the Enterprises' affordable housing goals which focus on maintaining the Enterprises' presence in specific markets.

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\* FICO stands for Fair Isaac Corporation, which produces the most widely used credit score model.

The Enterprises cannot remain in conservatorship permanently, and expanding private sector capital and participation is essential for the long-term health of the mortgage market. While much progress has been made in improving the Enterprises' underwriting and pricing since conservatorship, the Enterprises' current 70 percent share of the mortgage market is not optimal.

FHFA will continue to seek ways to improve pricing and underwriting, and evaluate options for enhancing private sector involvement in the mortgage market. Such an approach will help foster a transition to the structure of housing finance on which lawmakers and other policy-makers ultimately decide.

Directing the Enterprises' operations in conservatorship presents its own set of challenges for FHFA. In particular, it is critical that the Enterprises have adequate human resources to maintain operations and minimize losses in the face of uncertainty regarding the long-term prospects of the Enterprises' operations and charters. It is the intent of FHFA and the Enterprises to develop compensation packages that are fair and appropriate in light of the Enterprises' current role in the market and that maximize value for taxpayers.

## FHLBanks

As of December 31, 2010, all 12 FHLBanks exceeded the minimum leverage ratio by having at least 4 percent capital-to-assets. The weighted average regulatory capital to assets ratio for the FHLBank System was 6.5 percent in 2010, as compared to 5.9 percent in 2009. The FHLBanks' advance business continues to operate with no credit losses.

By contrast, the quality of the FHLBanks' investments in private-label mortgage-backed securities (MBS) remains a significant concern. Overall, the joint and several liability of FHLBank System debt enhances the safety and soundness of the System, but the actual and potential losses associated with these private-label MBS is a cause for safety and soundness concerns at certain FHLBanks.

Some individual FHLBanks have material deficiencies in their operations. Since October 2007, the FHLBank of Chicago has operated under a consent order to cease and desist. The consent order required the FHLBank to implement new market risk management policies and practices acceptable to FHFA, and it suspended the FHLBank's dividend payments and stock repurchases and redemptions. The FHLBank of Chicago made considerable progress in addressing these concerns in 2010 and has subsequently satisfied the requirements for revised market risk management practices.

The FHLBank of Seattle, as a result of deterioration in the value of its private-label MBS, and other issues principally related to its capitalization, entered into a consent order with FHFA in 2010. The consent order provides for a stabilization period for the FHLBank to meet certain financial thresholds related to retained earnings, securities impairments, and market value before it can resume certain activities.

The overall advance operations of the FHLBanks continued to decline in 2010, reaching \$479 billion at year-end 2010, down from \$631 billion at year-end 2009. Investments in private-label MBS have adversely affected the overall operations of some FHLBanks: dividends have been suspended, as has their ability to repurchase or redeem stock. FHFA has taken action where needed to address this problem at certain FHLBanks, and is closely monitoring the situation at other FHLBanks.

Even in a declining advance environment, the FHLBanks met their mission of providing liquidity to their members. Advance funding declines when members have less need for liquidity or nondeposit funding. The FHLBanks' Affordable Housing Program (AHP) continues to be a source of funds to support local affordable housing initiatives being funded by member institutions with \$229 million in AHP funds provided in 2010. FHFA completed rules on housing goals mandated by HERA for the FHLBanks.

Edward J. DeMarco  
Chairman  
Federal Housing Finance Oversight Board

Timothy F. Geithner  
Secretary  
U.S. Department of the Treasury

Shaun Donovan  
Secretary  
U.S. Department of Housing  
and Urban Development

Mary L. Schapiro  
Chairman  
Securities and Exchange Commission



# FHFA 2010 Report to Congress

## Contents

|   |   |
|---|---|
| <b>Conservatorship of the Enterprises</b> .....1  | Credit Risk Management .....52                                |
| FHFA's Role as Conservator .....2   | Market Risk Management .....53                                |
| Support for the Market.....3  | Operational Risk Management .....55                           |
| Minimizing Losses .....4  | FHLBanks' Examination Conclusions .....56                     |
| Limiting Risk Exposure .....8   | Director Compensation .....84                                 |
| <b>Report of Annual Examination of Fannie Mae<br/>(Federal National Mortgage Association)</b> .....9    | <b>Regulatory Guidance</b> .....87                            |
| Examination Authority and Scope .....9  | Regulations: Enterprises.....87                               |
| Examination Conclusions .....10   | Regulations: Federal Home Loan Banks.....88                   |
| Governance .....11  | Regulations: All Regulated Entities .....89                   |
| Solvency .....13  | Regulations: Agency Operations .....90                        |
| Earnings.....14   | Regulatory Interpretations:<br>Federal Home Loan Banks.....91 |
| Credit Risk Management .....17  | Regulatory Interpretations: Enterprises.....91                |
| Market Risk Management .....21  | Policy Guidance: Federal Home Loan Banks.....92               |
| Operational Risk Management .....24   | Policy Guidance: All Regulated Entities .....92               |
| <b>Report of Annual Examination of Freddie Mac<br/>(Federal Home Loan Mortgage Corporation)</b> .....29 | <b>Accounting</b> .....93                                     |
| Examination Authority and Scope .....29   | Classification and Measurement.....93                         |
| Examination Conclusions .....30   | The Challenge.....95  |
| Governance .....31  | <b>Housing Mission and Goals</b> .....97                      |
| Solvency .....33  | Enterprise Affordable Housing Goals.....97                    |
| Earnings.....34   | FHLBanks Affordable Housing Goals .....98                     |
| Credit Risk Management .....37  | Affordable Housing Program .....99                            |
| Market Risk Management .....41  | FHFA Outreach .....100  |
| Operational Risk Management .....43   | <b>FHFA Research and Publications</b> .....101                |
| <b>Report of Annual Examinations of<br/>Federal Home Loan Banks</b> .....47                             | Reports to Congress .....101                                  |
| Examination Authority and Scope .....47   | House Price Index and Related Research .....101               |
| Governance .....47  | Other Research Products .....103                              |
| Financial Condition and Performance.....48  | <b>FHFA Operations and Performance</b> .....105               |
|   | Performance and Program Assessment .....105                   |
|   | Financial Operations .....106                                 |
|   | <b>Historical Data Tables</b> .....107                        |

## Figures

|  |    |  |    |
|--|----|--|----|
| Figure 1 • The Enterprises' Loan Modifications: Payment Reductions .....             | 4  | Figure 16 • Freddie Mac Credit-Related Expenses and Losses .....                         | 35 |
| Figure 2 • The Enterprises' Loan Modifications: Performance After Modification ..... | 5  | Figure 17 • Freddie Mac Revenue .....  | 36 |
| Figure 3 • The Enterprises' Completed Foreclosure Prevention Actions .....           | 6  | Figure 18 • Fannie Mae Market-to-Market Value Gains (Losses) .....                       | 37 |
| Figure 4 • The Enterprises' Total Foreclosure Prevention Actions (Thousands) .....   | 7  | Figure 19 • Freddie Mac Mortgage Portfolio Composition .....                             | 42 |
| Figure 5 • Fannie Mae Earnings .....   | 14 | Figure 20 • Portfolio Composition of the Federal Home Loan Banks .....                   | 49 |
| Figure 6 • Fannie Mae Credit Loss Reserve .....                                      | 14 | Figure 21 • Market Value of Equity to Par Value of Capital Stocks .....                  | 50 |
| Figure 7 • Fannie Mae Earnings Detail .....  | 15 | Figure 22 • Summary of Financial Data of the Federal Home Loan Banks .....               | 51 |
| Figure 8 • Fannie Mae Credit-Related Expenses and Losses .....                       | 15 | Figure 23 • FHLBanks with Duration of Equity > 1.06 .....                                | 54 |
| Figure 9 • Fannie Mae Revenue .....  | 16 | Figure 24 • FHLBanks with -0.18 < Duration of Equity < 1.05 .....                        | 54 |
| Figure 10 • Fannie Mae Market-to-Market Value Gains (Losses) .....                   | 17 | Figure 25 • FHLBanks with Duration of Equity < -0.355 .....                              | 54 |
| Figure 11 • Growth in Illiquid Assets and Long-Term Funding .....                    | 21 | Figure 26 • FHLBank Projected Principal Cash Flow Interruptions, Private-Label MBS ..... | 84 |
| Figure 12 • Fannie Mae Mortgage Portfolio Composition .....                          | 22 | Figure 27 • Director Fees Earned in 2010 .....   | 85 |
| Figure 13 • Freddie Mac Earnings .....   | 34 | Figure 28 • Enterprises' Goals and Performance in 2010 .....                             | 98 |
| Figure 14 • Freddie Mac Credit Loss Reserve .....                                    | 34 |  |    |
| Figure 15 • Freddie Mac Earnings Detail .....  | 35 |  |    |

# Conservatorship of the Enterprises

**W**hen the deterioration of the subprime mortgage market began in early August of 2007, few were predicting that only one year later, the nation's economy would plunge into crisis. By 2008, most large financial institutions experienced diminished access to credit, and after the Lehman Brothers collapse, even nonfinancial firms could not obtain funds through normal channels.

The housing markets were at the center of the financial crisis. On September 6, 2008, using the power it had been granted just six weeks before in the Housing and Economic Recovery Act of 2008 (HERA), the legislation that created the agency, FHFA placed Fannie Mae and Freddie Mac (Enterprises) into conservatorships.

## Extraordinary Action, Extraordinary Task

The government's extraordinary action was designed from the start to maintain access to funds for the production of sound new mortgages. The purpose of the conservatorships was to preserve and conserve each Enterprise's assets and property and restore the Enterprises to a sound financial condition so they could continue to fulfill their statutory mission of promoting liquidity and efficiency in the nation's housing finance markets. Because the private mortgage securitization market had already vanished and there were no other effective secondary market mechanisms in place, the Enterprises' continued operations were necessary to maintain liquidity in the secondary market and for mortgage originations to continue.

As conservator, FHFA has the powers of the management, boards, and shareholders of the Enterprises. However, the Enterprises continue to operate as business corporations. For example, they have chief executive officers and boards of directors, and must follow

the laws and regulations governing financial disclosure, including requirements of the Securities and Exchange Commission. Like other corporate executives, the Enterprises' executive officers are subject to the legal responsibility to use sound and prudent business judgment in their stewardship of their companies.

At the inception of the conservatorships, FHFA made clear that the Enterprises would continue to be responsible for normal business activities and day-to-day operations. FHFA continues to exercise oversight as safety and soundness regulator and has a more active role as conservator. While FHFA has very broad authority, the focus of the conservatorships is not to manage every aspect of the Enterprises' operations.

Instead, FHFA reconstituted the boards of directors at each Enterprise and charged the boards with ensuring normal corporate governance practices and procedures are in place. The boards are responsible for carrying out normal board functions, but they remain subject to review and approval on critical matters by FHFA as conservator. The Enterprises are large, complex companies, and this division of responsibilities represents the most efficient structure for carrying out FHFA's responsibilities as conservator.

To manage the work of overseeing the Enterprises' conservatorships, FHFA formed an Office of Conservatorship Operations staffed with a half-dozen

## Enterprise Employee Compensation

Setting a compensation strategy in an uncertain environment requires a delicate balancing act. It is difficult to make compensation comparisons to government programs like the Federal Housing Administration and Ginnie Mae, because the underlying structures of those programs were designed over many years to operate with government oversight of private sector participants. This is not the case with the Enterprises where the underlying structure was developed based solely on private sector interactions between the Enterprises and their business partners.

As conservator, FHFA has reduced the Enterprises' compensation for executive officers by an average of 40 percent, putting it at the same level as 12 years ago. When higher compensated employees leave, the companies seek to fill those positions at lower compensation levels than paid to the departing employee, including at the executive level. FHFA is mindful of keeping Enterprise compensation costs down while retaining the talent to carry out the operations of the companies.

employees who had years of solid experience and keen insights into the workings of the secondary mortgage market. This office interacts daily with Enterprise senior management on behalf of the Director as Conservator. At the same time, FHFA examination staff maintains an ongoing supervisory presence at each company.

FHFA, in its role as conservator, limits the Enterprises to existing core business activities and is not permitting the companies to introduce new products or enter new lines of business. From the outset, FHFA stated that the goals of the conservatorships were to help restore confidence in the companies, enhance their capacity to fulfill their mission, and mitigate the systemic risk that contributed directly to instability in financial markets.

## Federal Support of the Enterprises

The Senior Preferred Stock Purchase Agreements between Treasury and the Enterprises, which commenced with the establishment of the conservatorships in September 2008, were designed to ensure each Enterprise maintained positive net worth. Through December 31, 2010, combined losses at the two Enterprises depleted their respective capital bases and required them to draw \$154 billion from the U.S. Treasury under the preferred stock facility.

The terms of Treasury's preferred stock purchase agreements with the Enterprises require a 10 percent reduction in the Enterprises' retained portfolios each year.

### Data Quality Initiative

In May 2010, FHFA directed the Enterprises to develop mortgage data standards with greater uniformity and consistency in the data they collect.

The goal of the program is to create a common framework for collecting loan data, including appraisal data, from lenders. FHFA directed the Enterprises to work with input from seller-servicers, appraisers, and other market participants.

The Enterprises are working to establish and help the industry adoption of data standards. The target date for full industry implementation of the Uniform Mortgage Data Program requirements is March 2012.

The only material additions to the portfolios come from delinquent mortgages pulled out of Enterprise mortgage-backed securities (MBS) after being four months delinquent.

The Enterprises' financial results in 2010 were better than in recent years, which resulted in smaller draws from the Treasury under the Senior Preferred Stock Purchase Agreements. In part, these results reflected much improved underwriting on their postconservatorship books of business.

Still, the Enterprises had substantial losses for the year as they continued to experience credit losses associated with mortgages originated principally between 2005 and 2007. Losses from those vintages of the companies' portfolios are likely to continue, but FHFA has taken and continues to take steps that preserve and conserve the Enterprises' assets, protecting taxpayers from further losses, ensuring market stability and liquidity, and protecting the value of the Enterprises' intangible assets for future utilization and value recognition for the benefit of taxpayers and markets.

## FHFA's Role as Conservator

FHFA has to exercise oversight as safety and soundness regulator, and it has an active daily role as conservator. To carry out its conservatorship responsibilities, FHFA works with the executive management of the Enterprises and their boards regularly, attending board of directors meetings, committee meetings, and weekly senior executive meetings at the Enterprises. FHFA's Acting Director meets frequently with the chief executive officers, and periodically meets with the full board of each Enterprise to address policy issues, provide direction, and discuss emerging issues. This ongoing involvement with senior executive management and the boards promotes effective communication and coordination of critical decisions requiring FHFA involvement.

## FHFA's 2010 Actions as Conservator

Throughout 2010, FHFA directed the boards of Fannie Mae and Freddie Mac to focus on 1) providing ongoing support for the market; 2) minimizing losses on

the mortgages already on their books; and 3) limiting their risk exposure on new books of business.

## Support for the Market

The Enterprises provided the vast majority of liquidity to the residential housing market in 2010, guaranteeing 70 percent of single-family MBS issued. Mortgage origination for home purchases and refinances dropped 13 percent in 2010 from 2009, but refinance activity picked up in the fourth quarter 2010 as mortgage rates remained near historic lows.

In 2010, the Enterprises provided more than \$1.027 trillion combined in liquidity to keep single- and multifamily mortgage markets operational. During 2010, Freddie Mac and Fannie Mae together issued approximately \$1.023 trillion in new MBS. In addition, Fannie Mae and Freddie Mac provided funding and liquidity for single-family and multifamily counterparties during a period when traditional sources of funding were scarce.

## Mortgage Market Presence

During conservatorship, the Enterprises have improved the quality of new mortgages purchased. In addition to purchasing very few nontraditional mortgages in 2010, underwriting standards were much stronger than in previous years. In 2010, the average borrower credit score using the Fair Isaac Corporation (FICO) credit score was higher than 750, and the average loan-to-value ratio was below 70 percent. In contrast, in 2006 and 2007, average credit scores were about 718 and average loan-to-value ratios were about 75 percent. Serious delinquency rates on the overall credit book declined during the year after peaking at the end of the first quarter of 2010. Fannie Mae's overall single-family delinquency rate declined from 5.4 percent in the fourth quarter of 2009 to 4.5 percent in the fourth quarter of 2010. For Freddie Mac, the decline over that same period was from 4 percent to 3.8 percent.

FHFA expects that newer vintages of mortgage originations will generate returns that exceed credit and administrative costs because improved underwriting practices, increased guarantee-fee pricing, and stronger

## Delisting of Fannie Mae and Freddie Mac Stock from New York Stock Exchange

On June 16, 2010, FHFA directed the Enterprises to delist their common and preferred stock from the New York Stock Exchange and any other national securities exchange.

FHFA's determination to direct each company to delist did not reflect on either Enterprise's current performance or future direction; rather it was related to stock exchange requirements for maintaining price levels and curing deficiencies. The directive by FHFA for voluntary delisting of the Enterprises was consistent with the goal of conservatorship to preserve and conserve assets.

regulatory oversight have enhanced the quality of new originations at both Enterprises.

Fewer of the newer loans originated with better oversight of loan underwriting and documentation standards are defaulting. In fact, early payment defaults of mortgages originated in 2009 and 2010 are in the 0.2 percent range for both Enterprises, compared to 2.2 percent in 2008. (For more information on loan performance, see FHFA's quarterly *Conservator's Report* found at [www.fhfa.gov](http://www.fhfa.gov).)

Since the end of 2008, both Fannie Mae and Freddie Mac have eliminated most of their purchases of Alt-A and interest only loans, two of the poorest performing mortgage products in the market. The Enterprises' withdrawal from this business is significant because interest only loans previously purchased by the Enterprises have serious delinquency rates of more than 18 percent, and Alt-A loans have serious delinquency rates of more than 13 percent.

## Pursuing Contractual Compliance by Lenders

FHFA has determined as conservator that the Enterprises should actively enforce lender compliance with contractual obligations, which includes pursuing repurchases from those institutions whose loans did not meet the Enterprises' underwriting and eligibility guidelines.

In July, FHFA issued 64 subpoenas as part of an effort to determine whether other firms have legal responsi-



bility for some of the Enterprises' losses on private-label MBS, losses which to date have been borne by the Enterprises and taxpayers. FHFA has received certain loan files as a result of these subpoenas. In December, FHFA withdrew the related subpoenas after Fannie Mae resolved its private-label MBS claims with one of these firms.

At the end of December, FHFA approved three separate agreements reached by Fannie Mae and Freddie Mac with two large seller/servicers to resolve certain claims related to mortgages sold to the Enterprises.

Combined, these agreements recovered \$3.3 billion for the Enterprises—and the American taxpayer. The agreements also reflect FHFA's efforts to ensure the Enterprises enforce claims for violations of representations and warranties incurred by the Enterprises or breaches of other legal obligations. Although these agreements are an important step, the Enterprises have other outstanding claims across a range of counterparties, and FHFA and the Enterprises will continue to pursue these claims.

## Minimizing Losses

FHFA recognizes that Enterprise losses become taxpayer losses. As conservator, FHFA focuses its actions on

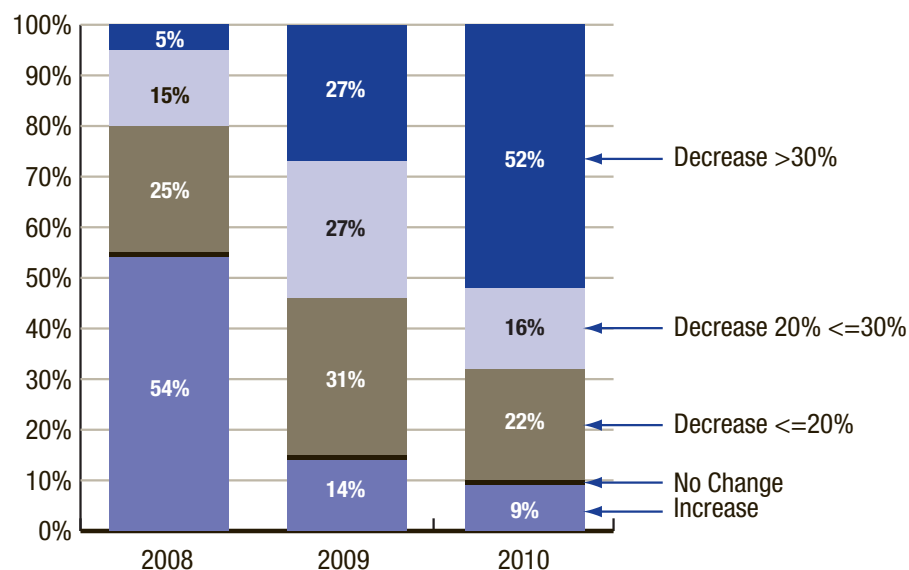
minimizing credit losses and controlling administrative expenses. Conserving the assets of the Enterprises requires, first and foremost, limiting losses from delinquent mortgages. FHFA also operates under a statutory mandate in the Emergency Economic Stabilization Act of 2008—the same legislation that established the Troubled Asset Relief Program, or TARP—to implement a plan aimed at maximizing assistance for homeowners in order to minimize foreclosures. That mandate specified loan modifications and tenant protections as part of the intended program and established a monthly reporting requirement for FHFA.

## Making Home Affordable Programs

The Enterprises' loan modification efforts are critical to minimizing their credit losses, because a loan modification is often a lower cost resolution to a delinquent mortgage than foreclosure. Since the Enterprises own or guarantee more than half the mortgages in the country, loan modification efforts also help restore stability to the housing market, which directly benefits the Enterprises by reducing credit exposure.

Under financial agency agreements with the U.S. Department of the Treasury, the Enterprises are the financial agents carrying out the Administration's

Figure 1. The Enterprises' Loan Modifications: Payment Reductions



Source: Federal Housing Finance Agency



objective of the Making Home Affordable (MHA) program, which was designed to help at-risk homeowners avoid foreclosure and reduce losses to the companies and to taxpayers. Fannie Mae has assumed the role of MHA program administrator and Freddie Mac the role of MHA compliance agent.

FHFA supervises and oversees the Enterprises' compliance with and performance and payments under the agreements with Treasury, as well as the Enterprises' adoption of MHA-related loss mitigation programs. FHFA's focus has been on how the Enterprises' obligations and performance as program agents on behalf of Treasury affect their safety and soundness and their consistency with the conservatorship goals of preserving and conserving assets.

In 2010, the Enterprises focused on loan modifications as a primary workout solution for distressed homeowners. Eligible borrowers may be offered loan modifications through the Administration's Home Affordable Modification Program (HAMP) or through the Enterprises' proprietary non-HAMP loan modification programs.

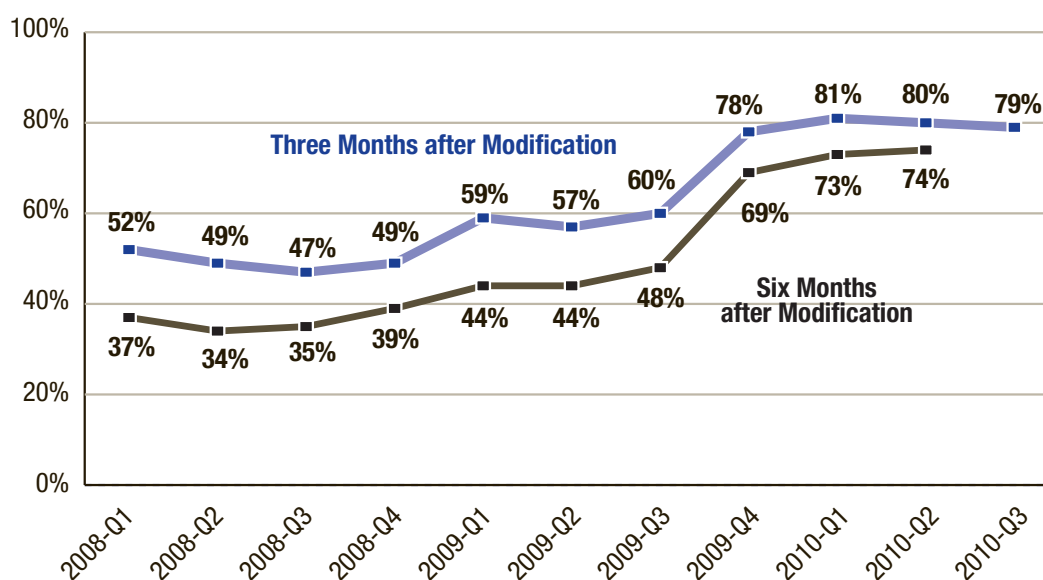
The volume of completed loan modifications, including HAMP modifications, more than tripled in 2010 to 575,022 from 163,647 in 2009. Monthly principal and

interest payments were lowered by 30 percent or more for over half of borrowers receiving loan modifications in 2010. By comparison, monthly principal and interest payments were lowered by at least 30 percent for 27 percent of borrowers who received loan modifications in 2009 (see Figure 1).

In addition to their roles as Treasury's financial agents for the Making Home Affordable programs, the Enterprises have played significant roles in HAMP program volume. For example, the Enterprises' active HAMP trial and permanent modifications represent 54 percent of all active HAMP trial and permanent modifications, yet the Enterprises' HAMP eligible 60-plus days delinquent loans represent only about 33 percent of all HAMP eligible 60-plus days delinquent loans.

The performance of loans modified in the first three quarters of 2010 improved relative to loans modified in 2009 (see Figure 2). Since loan modifications in 2010 provided lower payments for a greater proportion of borrowers, these loans are performing substantially better three and six months after modification compared to loans modified in the earlier periods. Approximately 80 percent of loans modified in 2010 are current and performing three months after modification. More than 70 percent of these modified loans

Figure 2. The Enterprises' Loan Modifications: Performance After Modification



Source: Federal Housing Finance Agency

are current and performing six months after modification (see figures 3 and 4).

The Enterprises also made it possible for families to lower monthly mortgage payments through refinancing, even on properties whose values had declined. The Home Affordable Refinance Program (HARP) is available to eligible borrowers whose mortgages are owned by Freddie Mac or Fannie Mae. HARP allows homeowners whose home values have fallen to refinance through any Enterprise-approved lender. HARP refinance loans are defined as Fannie Mae-to-Fannie Mae and Freddie Mac-to-Freddie Mac first lien refinance loans with limited or no cash out that are owner-occupied with loan-to-value between 80 percent and 125 percent.

Homeowners may refinance as much as 125 percent of their home's current value. In some cases, the need to transfer mortgage insurance coverage from the paid-off loan to the new loan complicates HARP refinances. As with all refinance activity, the volume of HARP refinance loans is affected by the interest rate environment.

As of December 2010, 431,627 mortgages were refinanced through the Enterprises' HARP program, including 402,927 with loan-to-value ranging from more than 80 percent to 105 percent and 28,700 with loan-to-value ranging from greater than 105 percent to 125 percent. In addition, of the 3.6 million refinanced mortgages with Enterprise financing, 763,477 (21 percent) were refinanced through the Enterprises' streamlined refinance process.

## Other Loss Mitigation Efforts

Reducing the Enterprises' losses through foreclosure prevention programs, including Making Home Affordable programs, remains a top priority. The Enterprises continue to assist homeowners and minimize foreclosures consistent with the intent of the Emergency Economic Stabilization Act of 2008. As in 2009, the top three reasons for delinquency continue to be curtailment of income, excessive financial obligations, and unemployment.

In 2010, the Enterprises completed 946,305 foreclosure prevention workouts through their own internal pro-

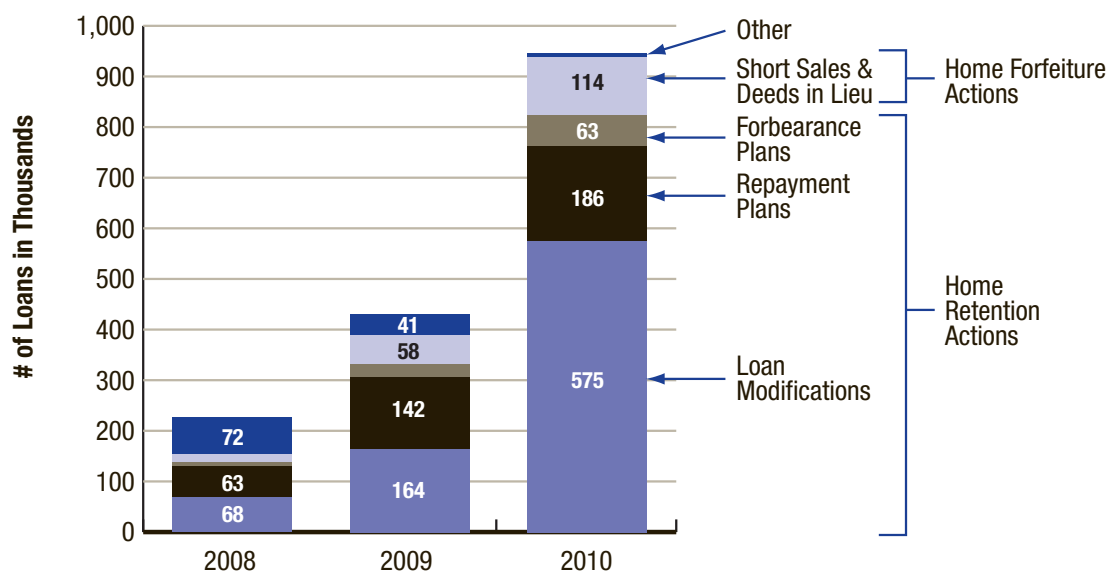
Figure 3. The Enterprises' Completed Foreclosure Prevention Actions

| Completed Foreclosure Prevention Actions        |                |                |                |   |
|---|----------------|----------------|----------------|---|
| (Completed Actions)                             | Full Year 2008 | Full Year 2009 | Full Year 2010 | Conservatorship through 12-31-10 <sup>1</sup> |
| <b>Home Retention Actions</b>                   |                |                |                |   |
| Repayment Plans                                 | 62,560         | 142,360        | 185,954        | 341,623                                       |
| Forbearance Plans                               | 5,692          | 25,227         | 63,024         | 90,367  |
| Charge-offs in Lieu                             | 799            | 2,247          | 3,118          | 5,638   |
| HomeSaver Advance (Fannie Mae)                  | 70,967         | 39,199         | 5,191          | 70,178  |
| Loan Modifications                              | 68,307         | 163,647        | 575,022        | 762,446                                       |
| <b>Total</b>                                    | <b>208,325</b> | <b>372,680</b> | <b>832,309</b> | <b>1,270,252</b>                              |
| <b>Nonforeclosure - Home Forfeiture Actions</b> |                |                |                |   |
| Short Sales                                     | 15,704         | 55,447         | 107,953        | 169,592                                       |
| Deeds in Lieu                                   | 1,511          | 2,971          | 6,043          | 9,554   |
| <b>Total</b>                                    | <b>17,215</b>  | <b>58,418</b>  | <b>113,996</b> | <b>179,146</b>                                |
| <b>Total Foreclosure Prevention Actions</b>     | <b>225,540</b> | <b>431,098</b> | <b>946,305</b> | <b>1,449,398</b>                              |

<sup>1</sup> Since the first full quarter in conservatorship (fourth quarter 2008).

Source: Federal Housing Finance Agency

Figure 4. The Enterprises' Total Foreclosure Prevention Actions (Thousands)



Source: Federal Housing Finance Agency

grams, a 120 percent increase over the 2009 level of 431,098. Approximately 88 percent of workouts are home retention actions, intended to help borrowers stay in their homes. Home retention actions include loan modifications, repayment plans, and forbearance plans. The remaining 12 percent of workouts are foreclosure alternatives, such as short sales and deeds in lieu of foreclosure. These alternatives are intended to reduce the severity of the Enterprises' losses resulting from a borrower's default while minimizing the impact of foreclosures on borrowers, communities, and neighborhoods.

The Enterprises continued to offer repayment and forbearance plans to assist borrowers experiencing short-term financial difficulty. In 2010, completed repayment plans increased 31 percent to 185,954; forbearance plans more than doubled to 63,024.

The number of completed short sales and deeds in lieu increased 95 percent to 113,996 during 2010, compared to 58,418 in 2009. This increase reflects the growing number of borrowers that no longer have the capacity or desire to retain their homes, due to unemployment, underemployment, negative equity, or other factors affecting the household's financial situation.

## Limiting Risk Exposure

During 2010, FHFA initiated changes to focus the Enterprises' resources on core mission activities. FHFA worked with the Enterprises to better align pricing practices with both market concerns and risk characteristics. The following are examples of these changes:

### No New Products

In view of the critical and substantial resource requirements of conserving assets and restoring financial health, combined with a recognition that the Enterprises operate today only with the support of taxpayers, FHFA limits new business activity, which is consistent with the standard regulatory approach for addressing financially troubled companies, and does not permit the Enterprises to offer new products or enter new lines of business. In 2010, FHFA restricted the Enterprises to existing core businesses and focusing on loss mitigation. This is critical for the Enterprises given their uncertain future and reliance on taxpayer funds.

In 2010, FHFA announced it has not and will not authorize new products because of the operational

challenges inherent in new product offerings and the need for the Enterprises to devote full attention to loss mitigation activities and remediation of internal weaknesses.

## Pricing

For the postconservatorship book of business, the key risk management challenge is establishing appropriate underwriting standards and risk-based pricing. Since conservatorship, underwriting standards have been strengthened and several price increases have been initiated to better align pricing with risk. In 2010, FHFA worked with the Enterprises to ensure they were pricing to cover expected costs by setting guarantee fees to price appropriately for risk.

FHFA publishes an annual report on guarantee fee prices, as required by HERA. The July 2010 report can be found on FHFA's website at [www.fhfa.gov](http://www.fhfa.gov). See page 101 for a description of the 2010 FHFA guarantee fee study.

FHFA will continue to seek more progress in these areas, but pricing changes in underwriting standards and pricing is likely to continue to be a challenge. Because government-supported mortgage activity constitutes nearly the entire mortgage market today, it is important to balance contraction of Enterprise business with the expected increase of private firms returning to the marketplace.

## Property Assessed Clean Energy Programs

Over the past year or more, several states have started programs known generically as property assessed clean energy, or PACE.

These programs are generally designed to finance energy-related home improvements through a structure that shifts the risk of default from the provider of the home improvement funds to the mortgage lender. Shifting default risk from another creditor to the mortgage lender—as PACE programs do—makes mortgages and mortgage-related assets riskier and less valuable.

The risk-shifting feature of PACE programs concerns FHFA because Fannie Mae and Freddie Mac hold more than \$5 trillion of mortgage-related assets. After studying PACE programs for more than a year, FHFA determined PACE programs could present significant safety and soundness concerns, and directed the Enterprises to address those concerns in a July 6, 2010, published statement.

Since July 2010, several jurisdictions with PACE programs have sued FHFA, Fannie Mae, and Freddie Mac, alleging, among other things, that FHFA has violated the Administrative Procedure Act, and the tax and competition statutes. FHFA and the Enterprises are vigorously defending these suits.

# Report of the Annual Examination of Fannie Mae (Federal National Mortgage Association)

## Examination Authority and Scope

**T**his *Report of Examination* contains the results and conclusions of FHFA's 2010 annual examination of the Federal National Mortgage Association (Fannie Mae, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to summarize examination results and conclusions to the board of directors and Congress is known as GSEER, which stands for Governance, Solvency, Earnings, and Enterprise Risk (enterprise risk comprises credit, market, and operational risk management).

## 2010 Examination Scope

In 2010, FHFA focused on assessing the board's and management's responses to continued distress in the housing market and its effect on the Enterprise's risk profile and condition. FHFA particularly focused on

various efforts to mitigate losses. In addition, our examination activities assessed:

- the effectiveness of the board of directors;
- quality of executive management;
- enterprise-wide risk management and audit functions;
- accounting estimates and their effect on disclosures, earnings, and loss reserves;
- key model performance;
- counterparty exposure and credit risk management;
- liquidity, retained portfolio, and interest rate risk profile and risk management practices;
- the internal control environment; and
- risks in information technology, data quality, and business continuity.

## Rating

**FHFA assigns Fannie Mae a composite rating of critical concerns.** Enterprises with critical safety and soundness concerns exhibit severe financial, nonfinancial, operational, or compliance weaknesses. Enterprises with this rating require more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings are in FHFA's *Supervision Handbook*.

FHFA first assigned this rating at mid-year 2008, which reflected concerns that ultimately led to the appointment of FHFA as conservator. The appointment of FHFA as conservator, combined with U.S. Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition, but it still requires capital infusions from the U.S. Treasury. This report identifies some of the improvements the board, management, and staff of Fannie Mae have made under conservatorship to help stabilize the Enterprise and maintain its support of the secondary mortgage market.

## Examination Conclusions

Fannie Mae's composite rating is driven by the stressed economy and the resulting credit problems' continued effect on the Enterprise's operations and counterparties. Credit losses and related expenses significantly contributed to the Enterprise's \$14 billion net loss in 2010. The high volume of problem loans has negatively affected earnings, complicated risk management in all business lines and strained the Enterprise's capacity to control and improve legacy systems and processes.

The board and management completed or made progress in addressing many significant problems. These problems were created during this stressed economy or have been outstanding for years at the Enterprise. Much remains to be done, and outstanding issues are at various stages of completion. The most acute areas in need of correction are in operations and independent operational risk oversight.

***The most acute areas in need of correction are in operations and independent operational risk oversight.***

## Governance

**Governance is rated significant concerns** because of external challenges facing management and the board of directors and the resulting pressures on the Enterprise's governance framework and practices. Executive management and the board of directors satisfactorily achieved their corporate objectives. Beyond these corporate objectives, management should strengthen some practices within several Enterprise functions. Management began improvements in all of these areas.

## Earnings

**Earnings are rated critical concerns.** The Enterprise lost \$14 billion in 2010. Although 2010 net losses declined by \$58 billion, Fannie Mae remains depend-

ent on support from the U.S. Treasury. Net losses were driven by credit-related expenses that exceeded revenues. The decline in net losses for the year resulted from fewer seriously delinquent mortgages due in part to management's home retention solutions and foreclosure alternatives and the impact of new consolidation accounting standards.

## Credit Risk

**Credit risk is rated critical concerns**, which is driven by a book of business stressed by economic weaknesses, particularly in the housing sector.

The single-family loan division expended significant resources managing credit exposure and losses and seeking foreclosure alternatives for stressed borrowers. Management created and deployed strategies that helped stem credit losses, and some of these initiatives have been adopted by the industry. The multifamily loan division satisfactorily managed its risks: reporting continues to improve, and asset management is timely and responsive to issues regarding problem loans.

The risk from counterparties increased due to company consolidation within the industry, their weakened financial condition, and stronger management of their exposure, which could increase losses to the Enterprises. Fannie Mae's counterparty risk management has improved, and it has strengthened its analysis of its counterparty companies. Management reduced the Enterprise's exposure to a large block of outstanding problem loans through payment agreements with two seller/servicers.

## Market Risk

**Market risk is rated critical concerns.** Interest rate risk decreased in 2010 but remains high relative to limited earnings and capital. The retained portfolio's illiquid investments significantly increased, and the distressed assets subportfolio grew from \$73 billion to \$249 billion, increasing model, interest rate, and funding risks. The increase was caused by purchases of delinquent loans from single-family mortgage-backed securities (MBS) trusts.

Risk management practices were adequate in several



areas, and interest rate risk management improved. Management addressed outstanding examination issues from previous years during 2010, although some remain. Management also met all three FHFA liquidity requirements by year-end.

Unprecedented uncertainty in prepayment estimates arising from changes in borrowers' creditworthiness and home equity reduced the reliability of interest rate risk model results. Management adjusted these results but did not consistently provide adequate controls for the adjustments.

## Operational Risk

**Operational risk is rated critical concerns.** The operating environment remains stressed from legacy architecture used to process an unprecedented volume of problem loans. The high number of manual processes and end-user computing applications lead to dependencies on key persons who understand proprietary processes and systems, which increases operational risk.

During 2010, the Enterprise strengthened several aspects of the operations business line, but there is still much work to do. Accomplishments include hiring key leaders, introducing enhanced system development life cycle practices, forming a Project Quality Office, developing offices for risk management and information security for specific business lines, and dedicating extensive work to data management.

For the last several years, management has been unable to complete an independent oversight function for operational risk. The board should monitor this project for progress and effectiveness throughout 2011.

## Model Risk

**Model risk is rated significant concerns.** The inherent risk in models has stabilized but still is high because of the effect the stressed national economy has on model results. Most key models performed adequately, and several important models were improved during the year. However, credit and market risk models will not be integrated until later in 2011.

Model risk management improved substantially in 2010, but cost cutting slowed the pace of model development. A new business unit helped segregate duties, which strengthened operational controls, and enhanced practices improved model risk oversight. The audit's model function expanded significantly and now has adequate resources. Model performance tracking improved but remains incomplete or immature in some areas. Some controls in change management, issue correction, and interest rate risk production metrics still require strengthening.

## Governance

### Board of Directors

**Governance is rated significant concerns.** The board of directors has appropriate limits, policies, procedures, and practices in place. Board operations are consistent with FHFA regulations and examination guidance. The board's self-evaluation process is consistent with FHFA requirements for professional practice.

### Executive Management

Industry-wide pressures strained the Enterprise's business operations, increasing vulnerabilities in the measurement and management of risk exposures.

Moreover, the Enterprise's risk management framework, which was designed to identify and address anomalies and outliers, suffered under the weight of a variety of pressures. The shrinking number of counterparties has limited management's options in risk sharing and transfer. The risk management framework was not designed to deal with the currently high numbers of weakened counterparties and troubled assets and must be reinforced given the current environment.

Management reduced the number of open examination findings during 2010 and is working with FHFA to resolve long-standing issues from previous examinations.

**Special Review—Retained Attorney Network.** To address growing concerns about foreclosure activities conducted by third parties, FHFA initiated a special

review of the Enterprise's retained attorney network program. This review was intended to assess the Enterprise's risk exposures, to address the immediate problems arising at one particular law firm, and to identify improvements for the retained attorney network. FHFA's special review is not complete, and the agency has not reached final conclusions.

## Financial Reporting Management

The financial reporting function (principally the accounting and controllership executive management group) executed its responsibilities adequately. Also, the Enterprise continues to work with FHFA and Freddie Mac to standardize policy and practices for established and emerging accounting rules. FHFA's concerns stem from several factors, including newly implemented and proposed accounting standards, and economic conditions that made certain accounting estimates more difficult. To meet these challenges, the Enterprise should maintain or enhance resources and executive support to the finance area, and promptly fill key positions with permanent employees.

On January 1, 2010, the Financial Accounting Standards Board (FASB) required the Enterprise to consolidate mortgage trusts onto the balance sheet from off-balance sheet accounts. The Enterprise appropriately addressed this issue.

The Enterprise satisfactorily managed critical accounting estimates for mortgage modifications, insurance claims, changes in collateral values, and impairments of multifamily mortgages. These accounting estimates have a high risk of error due to the difficulties in obtaining a sufficient amount of accurate and timely historical data. Management monitored the quality of its data and regularly evaluated and updated assumptions used in its estimation processes.

FHFA identified no accounting errors during its analysis of the Enterprise's other-than-temporary impairment credit loss estimates for private-label MBS. Accounting variances among the regulated entities examined by FHFA reflected the significant judgment and inherent uncertainty involved in making critical accounting estimates. FHFA made a number of recom-

mendations to make processes more transparent and consistent and to ensure continued diligence around these critical estimates.

FHFA also concluded that Fannie Mae and Freddie Mac had significant policy differences for troubled debt restructuring and impairments for many of their single- and multifamily loans. FHFA sent a comment letter to FASB regarding its standards-setting process and worked with the two Enterprises to identify and reduce differences in their accounting policies and practices.

***FHFA recommended that the Enterprise review its systems for significant backlogs and identify opportunities to strengthen internal controls. Also, FHFA is increasing its staff to oversee these internal control structures. FHFA reviews these forms each quarter for material omissions and material misstatements.***

Management adequately employed dealer-based pricing to value delinquent loans for balance sheets based on fair value as well as Generally Accepted Accounting Principles in the United States. FHFA concluded that maximizing the use of dealer-based prices provides the most relevant valuations.

Fannie Mae's management identified areas to improve its operational and financial reporting systems that affect filing and disclosure processes for the Enterprise's financial statements as filed on the Securities and Exchange Commission's forms 10-Q and 10-K. As a result, FHFA recommended that the Enterprise review its systems for significant backlogs and identify opportunities to strengthen internal con-

trols. Also, FHFA is increasing its staff to oversee these internal control structures. FHFA reviews these forms each quarter for material omissions and material misstatements.

Fannie Mae identified a material weakness in its disclosure controls and procedures that prevents it from obtaining some information held by FHFA that it may need to meet its disclosure obligations. Independent accounting firm Deloitte first assessed the risk that this weakness existed and then tested and evaluated the design and operating effectiveness of controls for this risk. Deloitte issued an unqualified opinion on the 2010 financial statements. However, considering this material weakness associated with being in conservatorship, Deloitte issued an adverse opinion on the company's internal control over financial reporting.

## Internal Audit

Management strengthened the internal audit department during 2010, and the department is on track to achieve its multiyear performance objectives. The chief audit executive filled key management positions, and the management team is stable for the first time in several years.

Audit policies, procedures, and practices are consistent with professional standards, and FHFA regulations and guidance. The department completed the 2010 audit plan, as well as its correction of examination issues pertaining to its skills assessment and follow-up on audit findings. The audit department had no outstanding examination findings from previous years at year-end 2010.

Although 49 percent of audit personnel have more than three years of professional audit experience, 36 percent have fewer than three years of experience auditing Fannie Mae. The department's training program should appropriately train audit personnel in Enterprise-specific practices.

## Enterprise-wide Risk Management

Enterprise-wide risk management generally complies with professional standards, with the exception of the

function for operational risk oversight. Among other things, enterprise risk management is leading the Enterprise's efforts to refine risk reports and to put a number of a consultant's recommendations in place.

## Mortgage Fraud

Management corrected the examination findings FHFA issued in 2009 pertaining to the Enterprise's mortgage fraud detection and reporting processes. Management's enhancements will significantly improve the Enterprise's ability to produce informative data and analyze its exposure to mortgage fraud and potential losses.

## Solvency

FHFA previously determined it would suspend capital classifications during conservatorship. FHFA did not issue capital classifications for Fannie Mae in 2010. FHFA's decision recognizes that during conservatorship, Fannie Mae's positive net worth capital position has been supported by the U.S. Treasury under the Senior Preferred Stock Purchase Agreement.

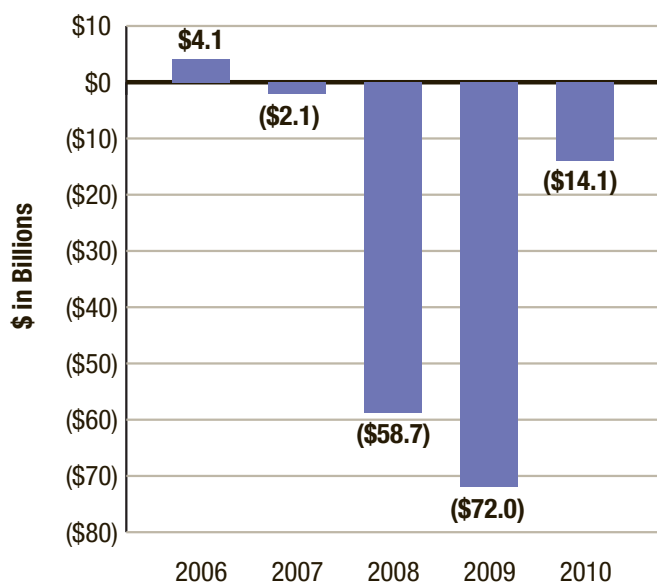
Fannie Mae's draws under the Treasury's Senior Preferred Stock Purchase Agreement were \$15 billion during 2010. The cumulative draw requests through year-end 2010 were \$90.2 billion.

Fannie Mae's required draws from Treasury during 2010 were primarily caused by the high level of credit-related expenses. Lower interest rates during the second and third quarters generated positive gains to the portfolio and reduced the negative effect of the credit expenses and the amounts of draws Fannie Mae requested under the agreement.

Under the agreement, Treasury was to establish a periodic commitment fee payable to Treasury by Fannie Mae starting in 2011. Treasury notified FHFA on December 29, 2010, that the fee would be waived for the first calendar quarter of 2011. Treasury did not set a deadline date for setting the fee amount.

FHFA worked with Fannie Mae's capital team in 2010 to develop an economic capital model and address issues of capital management postconservatorship.

Figure 5. Fannie Mae Earnings



Source: Fannie Mae Form 10-K

## Earnings

Fannie Mae's financial performance, absent financial support from the U.S. Treasury, is rated **critical concerns**. Net losses in 2010 continued for reasons similar to those in 2009—credit-related expenses and

losses, particularly the provision for credit losses. Throughout 2010, relatively poor economic conditions, high national unemployment rates, and depressed house prices contributed to high levels of mortgage delinquencies. Serious delinquencies remained relatively high but lessened after peaking in the first quarter of 2010 (see Figure 5).

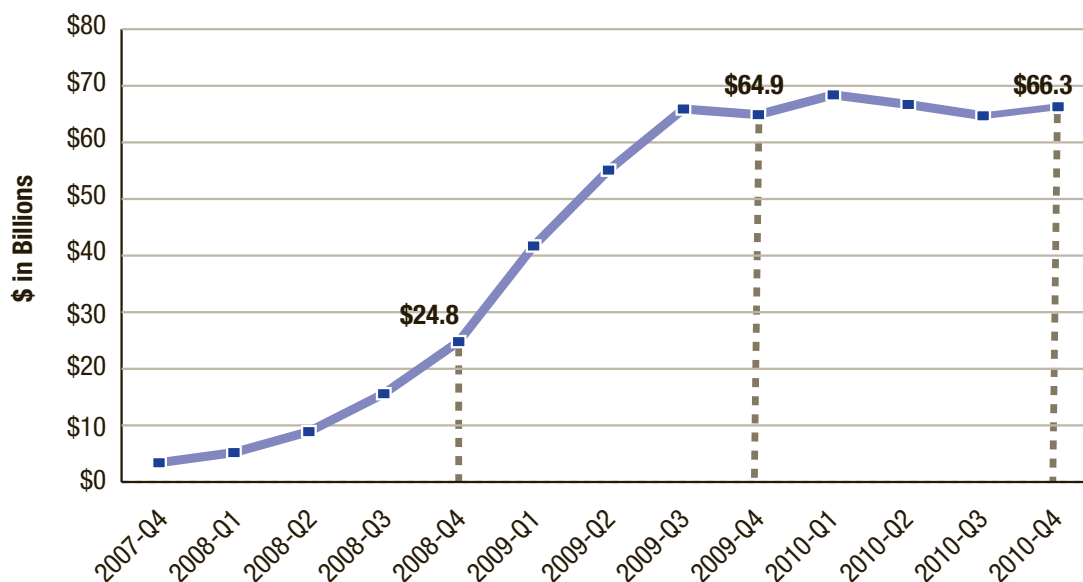
Net losses, although significant, decreased considerably in 2010 to \$14 billion from \$72 billion in 2009. Fewer serious delinquencies reduced the need for further substantial increases in loan loss reserves. Consequently Fannie Mae's loan loss reserve increased by \$1.4 billion to \$66.3 billion, as compared to an increase of \$40.1 billion in the prior year (see figures 6 and 7).

Earnings benefited from:

- substantially lower credit-related expenses and losses;
- lower mark-to-market losses;
- lower security impairments; and
- lower administrative and other expenses.

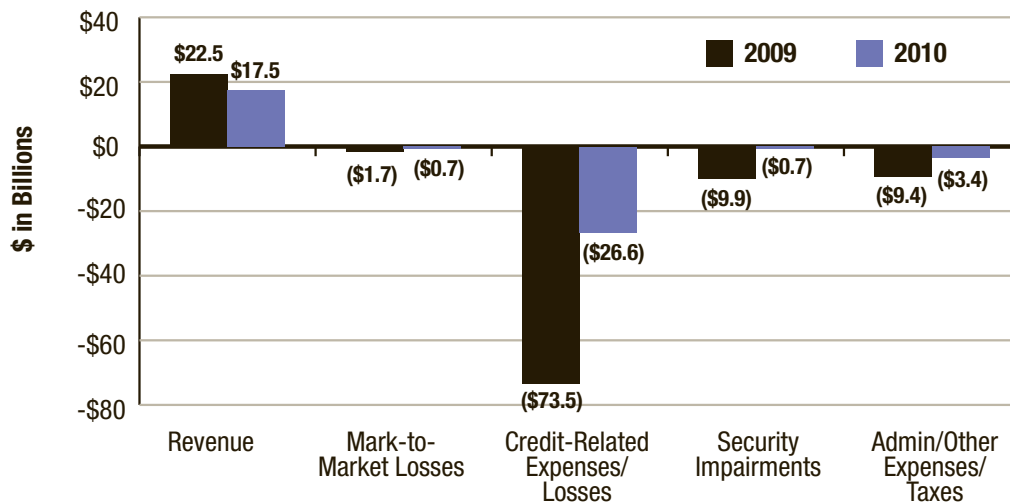
However, these were partially offset by lower revenue.

Figure 6. Fannie Mae Credit Loss Reserve



Source: Fannie Mae Forms 10-Q and 10-K

Figure 7. Fannie Mae Earnings Detail



Source: Federal Housing Finance Agency and Fannie Mae Form 10-K

### Credit-Related Expenses and Losses

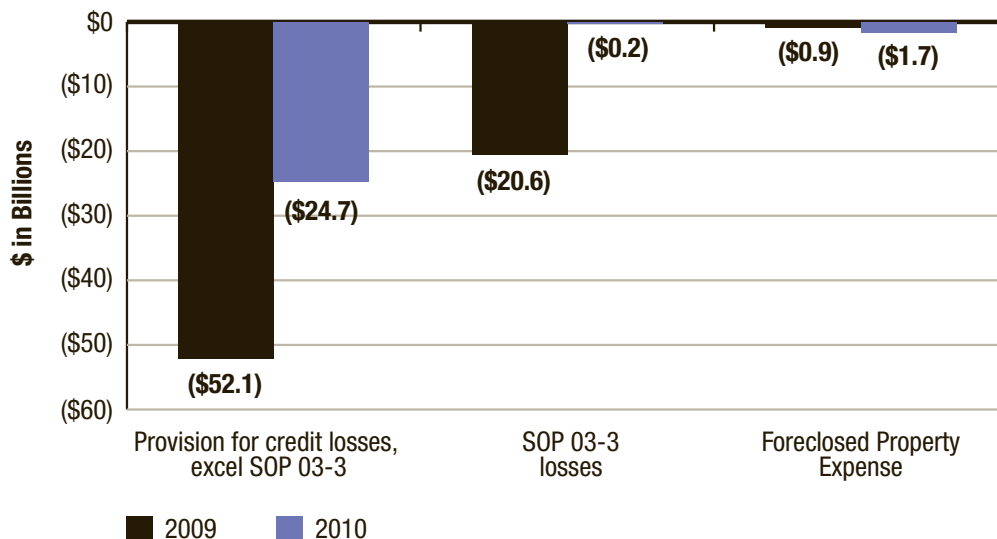
Credit-related expenses and losses were substantially lower than in 2009. However, the extent of the expenses and losses continued to drive overall net losses for the year. The provision for credit losses fell by 53 percent in 2010 to \$24.7 billion, driven by fewer seriously delinquent loans (see Figure 8).

Increases in permanent loan modifications during the year and higher acquisitions of foreclosed property contributed to fewer seriously delinquent loans out-

standing. In 2010, Fannie Mae completed more than 403,500 single-family loan modifications, compared to 98,600 single-family loan modifications in 2009. By contrast, Fannie Mae experienced a significant increase in seriously delinquent loans and a steep decline in home prices during 2009, resulting in a substantial increase in loan loss reserves.

As a result of adopting new accounting standards on January 1, 2010, Fannie Mae was no longer required to recognize fair-value losses on credit-impaired loans

Figure 8. Fannie Mae Credit-Related Expenses and Losses



Source: Federal Housing Finance Agency and Fannie Mae Form 10-K

purchased out of MBS trusts because such trusts are now held on the balance sheet. Because almost all of Fannie Mae's MBS trusts moved onto the balance sheet, this type of loss in the financial statements in 2010 was essentially eliminated, particularly compared to \$21 billion of such losses in 2009.

## Security Impairments

The effect of security impairments on earnings decreased significantly in 2010 to \$722 million from \$9.9 billion in the prior year. The decrease was driven primarily by a 2009 accounting change. Beginning in the second quarter of 2009, only the credit portion of other-than-temporary impairments was recognized in earnings. The overwhelming majority of the impairment charge incurred in 2009 related to the first quarter, before the change in impairment accounting. Security impairments continued in 2010 as the performance of collateral underlying subprime and Alt-A securities further deteriorated, albeit at a more modest

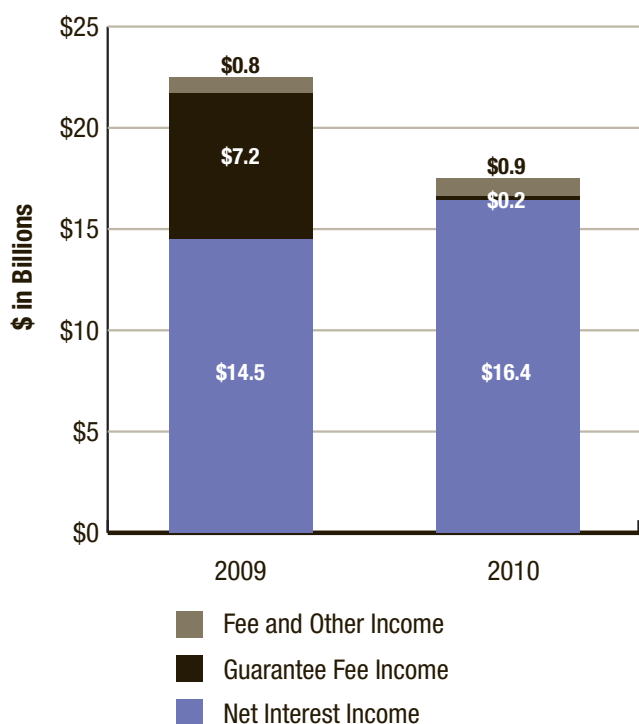
level despite continued high levels of unemployment and mortgage delinquencies.

## Revenue

Revenue decreased in 2010 to \$17.5 billion from \$22.5 billion in the prior year, mainly attributed to the adoption of new consolidation accounting standards, which moved almost all the Enterprise's MBS trusts onto the balance sheet (see Figure 9). Because of the new accounting standards:

- Fannie Mae stopped recording guarantee fee income on MBS trusts and started recording net interest income for these assets instead. Consequently, guarantee fee income in 2010 fell to \$200 million from \$7.2 billion in 2009.
- Fannie Mae does not record interest income on loans that are 90-plus days delinquent. A substantial number of loans brought on balance sheet as a result of accounting consolidation were 90-plus days delinquent, so total revenue was reduced by lower interest income from this population.

Figure 9. Fannie Mae Revenue



Source: Freddie Mac Form 10-K

Revenue benefited from low debt funding costs throughout 2010 because of relatively low benchmark Treasury rates and debt spreads to Treasury. Fannie Mae replaced higher cost debt with lower cost debt in 2010.

## Mark-to-Market Gains (Losses)

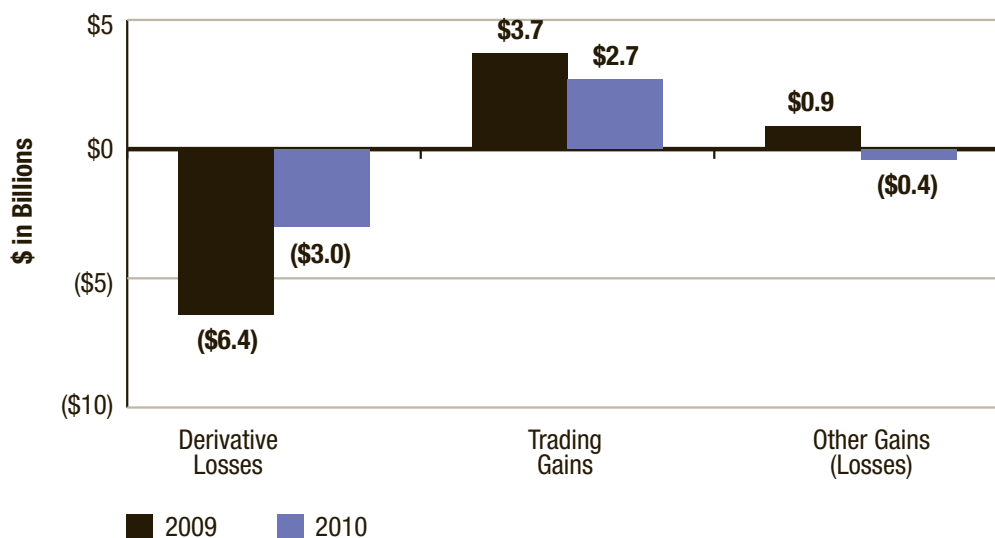
Fannie Mae's mark-to-market losses in 2010 were \$700 million, an improvement of \$900 million compared to 2009, as a marked decline in derivative losses from the prior year more than offset lower trading gains. Derivative losses were \$3 billion in 2010, as a result of the decrease in swap rates during the year, particularly on the long-end of the curve. Trading gains of \$2.7 billion were driven by decreases in interest rates and improved pricing on commercial MBS during the year (see Figure 10).

## Administrative and Other Expenses

In 2010, administrative and other expenses returned to a more normal level at \$3.4 billion, in contrast to 2009



Figure 10. Fannie Mae Market-to-Market Value Gains (Losses)



Source: Federal Housing Finance Agency and Fannie Mae Form 10-K

levels of \$9.4 billion. This is largely because Fannie Mae wrote off the carrying value of its low-income housing tax credit partnership investments in 2009, resulting in an impairment charge of \$5 billion. The Enterprise cannot sell or transfer these investments in the current market and its negative earnings renders the tax credit of no value.

## Credit Risk Management

**Credit risk is rated critical concerns** due to weaknesses in the Enterprise's single-family, multifamily, and investment books of business. The risk to the Enterprise from counterparties increased because of a trend toward consolidation of companies in the industry and those companies' aggressive management of their credit exposure. The single-family loan book's poor performance continued throughout 2010. Real estate owned and credit losses increased significantly, and the volume of seriously delinquent mortgages remained elevated. The multifamily loan division's key metrics for credit performance worsened during the year, and declining property values are expected to stress refinancing of loans maturing in the next few years. The Enterprise's private-label mortgage related securities continue to exhibit poor credit performance.

Management better managed credit exposure and losses and sought foreclosure alternatives for stressed borrowers. Concerns and improvements included:

- Credit Portfolio Management managed and analyzed counterparties, but staffing levels to monitor servicer performance may be inadequate.
- Management worked to reduce delinquencies, losses, and foreclosures.
- Management tightened mortgage underwriting and eligibility standards for new acquisitions.
- The organizational structure was revised in several areas to strengthen credit risk management in both the chief risk officer function and the business lines.
- Multifamily risk management was strong in 2010 because the asset management function was extremely responsive, but staffing numbers are a concern for FHFA. The business unit reorganized to improve efficiencies and minimize losses and is appropriately monitoring at-risk loans that mature in the next few years.

## Single-Family Loans

Real estate owned inventory increased 89 percent to 162,489 properties at year-end 2010 from 86,155 properties at year-end 2009. Real estate owned dispositions totaled 185,744 for 2010, which was an increase of 51 percent from 123,000 during 2009.

Single-family credit losses increased 72 percent to \$23.1 billion during 2010 from \$13.4 billion during 2009. Credit losses were concentrated in California, Nevada, Arizona, Florida, and several Midwest states. These states represented about 65 percent of the Enterprise's credit losses in 2010. Moreover, mortgages originated in 2006 and 2007 accounted for about 64 percent of credit losses in 2010.

Single-family seriously delinquent mortgages declined during 2010 but remained well above levels before the financial crisis and are still a concern for FHFA. During 2010, the seriously delinquent mortgage rate declined to 4.48 percent from 5.38 percent the previous year. This improvement is primarily due to the Enterprise's home retention programs and the fact that it transferred a large number of seriously delinquent mortgages to real estate owned inventory. In addition, the improved credit attributes and superior performance in mortgages acquired during 2009 and 2010 contributed to the lower rate of seriously delinquent mortgages.

In Fannie Mae's book, Florida exhibits the highest level of seriously delinquent mortgages at 12.31 percent, followed by Nevada at 10.66 percent, and Arizona at 6.23 percent. Although the rates of delinquent mortgages went down in 2010, the seriously delinquent mortgage rate for every vintage before 2009 has started to rise again.

Management increased the loan loss reserve during 2010 to cover its estimates of higher credit losses. The single-family loan reserve increased 2.7 percent during 2010, rising from \$62.8 billion to \$64.5 billion at year end. The portion of the reserve for the higher-risk adjustable rate mortgages is 39 percent of the total, even though these loans represent only 10 percent of the Enterprise's book of business.

Management sought to minimize credit losses through the Making Home Affordable and other loss mitiga-

tion programs. The Enterprise launched "Know Your Options," a website designed to help borrowers having trouble with their mortgages ([www.knowyouroptions.com](http://www.knowyouroptions.com)). Management also established six mortgage help centers to provide support and resources so that borrowers can identify foreclosure alternatives and pursue home retention options. However, the effectiveness of these centers remains an issue.

***In Fannie Mae's book, Florida exhibits the highest level of seriously delinquent mortgages at 12.31 percent, followed by Nevada at 10.66 percent, and Arizona at 6.23 percent. Although the rates of delinquent mortgages went down in 2010, the seriously delinquent mortgage rate for every vintage before 2009 has started to rise again.***

In addition, management created several pilot programs to stem credit losses. However, controls over these programs varied, and management is in the process of strengthening these controls.

Fannie Mae has been challenged by some servicers' actions to manage and settle the high volume of problem loans. Fannie Mae's staff level for servicer management improved but is still insufficient to monitor servicer performance, and a comprehensive training program for new and existing employees is in progress but not yet complete.

The credit portfolio management department increased servicer oversight and engagement by:

- reorganizing the servicer oversight function to strengthen servicer management;
- maintaining a greater on-site presence at its servicers;
- transferring seriously delinquent loans to servicers which specialize in managing problem loans; and
- establishing protocols for servicers working with their seriously delinquent borrowers.

Fannie Mae has significant exposure to servicers that delay or avoid repurchasing problem loans. Servicers have aggressively challenged their obligation to repurchase these loans, and some delay payment until the Enterprise disposes of the house. Outstanding repurchases grew during 2010, and the volume of repurchases aged more than three months continued to increase.

At the end of 2010, about 51 percent of repurchases outstanding were aged more than three months, versus 43 percent at the end of 2009. Management improved the servicer repurchase rate during 2010 by significantly increasing its staff for file reviews.

Fannie Mae also reduced its amount of aged, outstanding repurchases by reaching agreements with two counterparties that repurchased \$1.37 billion total in problem loans. Enforcement of outstanding repurchases is critical to managing credit losses.

In late 2010, Fannie Mae learned that several servicers' affidavits, used to reach judgments in foreclosure cases, may have been improperly notarized. In judicial foreclosure states, the signer must confirm personal knowledge of the debts or review of the paper work. These problems have delayed planned foreclosures.

In 2010, management improved the performance of new mortgage purchases by tightening standards for underwriting and eligibility, and lender quality control. The 2010 vintage's credit risk characteristics are much better than in previous years.

Both independent oversight and the business line improved credit risk management in several areas. The chief risk officer established a risk support structure for credit portfolio management in alignment with the

business line functions. The credit portfolio management department increased its governance, and strengthened risk controls and approval processes.

## Multifamily Mortgage Business

During 2010, vacancy and concession rates improved, but these improvements were not sustained and did not improve the performance of multifamily loans. Despite the year's poor metrics, the business unit was profitable. Key performance metrics from year-end 2009 to year-end 2010 include:

- Real estate owned inventory significantly increased from 73 properties to 222 properties;
- Serious delinquency rate increased from 0.63 percent to 0.71 percent; and
- Credit losses increased from \$220 million to \$498 million, which decreased the multifamily loan loss reserve from \$2 billion to \$1.781 billion.

The risk management function actively monitors and works to cure troubled assets. Management now identifies problem assets earlier, develops workout strategies for problem loans, and manages delinquencies and foreclosed properties to improve the amount recovered on sales of property in markets and minimize losses.

Management reorganized the multifamily business unit to minimize losses, improve efficiencies, and develop better relationships with borrowers and lenders. The reorganization moved departments not directly related to the core function to other parts of the Enterprise. Management also strengthened lending and acquisition policies, implemented lender performance assessments and capital standards, and is improving internal operations and systems.

The Enterprise may not have sufficient resources to improve information technology to better support asset management, complete the risk rating system, and process the expected increases in troubled assets. Management responded to the findings in FHFA's asset management examination, and efforts are underway to

identify an appropriate asset management system that will improve efficiencies and reports for the multifamily book.

The Enterprise continues to manage its credit risk from loans maturing over the next few years. Declining property values are expected to stress loan refinancings. The Enterprise has created a maturity management group that assesses loans for refinance eligibility and works with servicers to identify and find solutions for loans that may be difficult to refinance.

The Enterprise continues to manage its low income housing tax credit portfolio. The Enterprise appropriately notifies FHFA as conservator when it must provide additional funding to the underlying properties or when it must dispose of the underlying partnerships after the tax credits expire. FHFA and the U.S. Treasury Department directed the Enterprise not to sell its portfolio.

## Counterparty Credit Risk Management

Counterparty risk is high and increasing. Many financial institutions have consolidated, making it difficult for Fannie Mae to diversify and manage risk. In addition, many counterparties are now more aggressive in questioning their obligation to cover credit-related expenses from problem loans.

Mortgage repurchase obligations comprise a significant portion of the counterparty risk exposure. At the end of 2010, Fannie Mae's unpaid repurchase obligations were \$5 billion, versus \$4.6 billion in 2009. The Enterprise reached an agreement with two servicers to resolve their liabilities from mortgages and private-label MBS. These agreements reduced exposure, potential litigation, and expenses from collecting outstanding repurchases.

Fannie Mae improved its process for renewing its agreements with significant counterparties. Management now conducts a more thorough analysis of large counterparties and produces better reports that show portfolio quality, performance, and exposures. These actions corrected the last findings from the 2007 examination of the Countrywide relationship.

The mortgage insurance industry remains under stress. Many mortgage insurers manage their payment obliga-

tions through increased due diligence, reducing their loss payouts but potentially increasing the Enterprises' losses. Mortgage insurers now control risk from new loans through tightened underwriting standards and restrictions on insuring properties in higher risk markets. The Enterprise drafted new eligibility guidelines for mortgage insurers and shared the draft guidelines with the mortgage insurers for comment.

Two mortgage insurers entered into agreements with a large seller/servicer that are expected to increase Fannie Mae's costs. The agreement reduces the number of mortgage investigations completed by these two mortgage insurers. Fannie Mae's costs will increase since it will now handle investigations, and the agreement may also increase the Enterprise's loan losses.

Counterparty risk management improved during 2010. These improvements included:

- filled staff vacancies,
- additional personnel with strong credit experience, and
- increased independence in financial analysis.

Credit reviews improved and now reflect industry practices. The Enterprise's monthly Risk Book report and other reports give management information on exposure and trends, key risk management issues, and sector updates. Fannie Mae also reduced its exposure to international financial institutions because of the economic turmoil in Europe and elsewhere. Management is assessing options for current tools used for counterparty risk management.

## Private-Label Securities

Fannie Mae recorded \$722 million net credit losses in other-than-temporary impairments during 2010 on its \$82.5 billion private-label MBS portfolio, including commercial MBS and mortgage revenue bonds. Improved liquidity during 2010 resulted in net fair-value gains (excluding pay downs) on commercial MBS of \$3.1 billion, with \$1.70 billion attributed to commercial MBS available for sale and \$1.40 billion attributed to commercial MBS held for trading.

Net fair-value declines on residential private-label MBS were \$945 million; \$1.074 billion of losses attributed

to private-label MBS available for sale and \$129 million of gains attributed to private-label MBS held for trading. These declines were driven mostly by pay downs, while average mark-to-market prices increased over the same period.

At year-end 2010, Fannie Mae's \$82.5 billion private-label MBS, commercial MBS, and mortgage revenue bonds portfolios reflected continuing poor credit performance. Fannie Mae should identify private-label MBS securities when opportunities arise. Risk management should also continue to vigorously pursue loss mitigation through loan put-backs based on fraud and misrepresentation.

## Market Risk Management

**Market risk is rated critical concerns.** The rating is based on:

- moves in market interest rates that could deplete a large percentage of the Enterprise's already minimal capital;
- increased unreliability in interest rate risk model estimates resulting from the credit crisis;

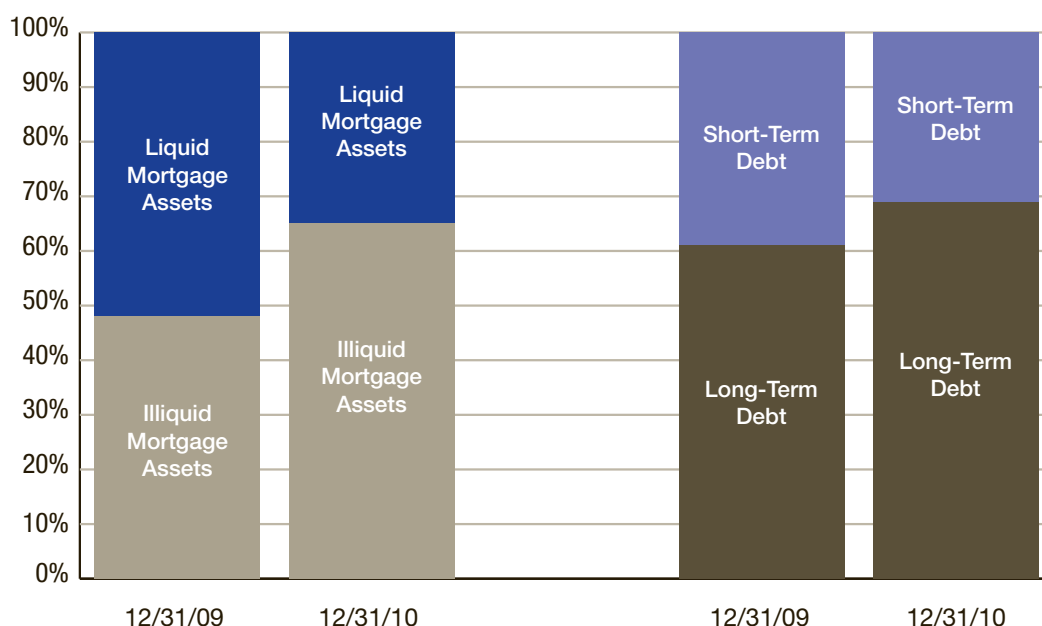
- the increased illiquidity of the balance sheet because of more distressed assets and whole loans in the portfolios; and
- several weaknesses in risk management practices.

## Liquidity and Funding Risks

The risk associated with Fannie Mae's liquidity and debt funding activities continued to represent a significant concern but remained stable because of the government guarantee. While Fannie Mae continuously accessed short-term, long-term, and callable debt at favorable levels during 2010, it is doubtful that this funding access would have existed without government support.

Agency debt spreads remained tight even as the Federal Reserve's purchase program concluded. However, no formal government liquidity backstop exists that would enable the company to convert its unencumbered agency collateral of \$279 billion (as of year-end 2010) to cash.

Figure 11. Growth in Illiquid Assets and Long-Term Funding



Source: Fannie Mae



Fannie Mae complied with FHFA's 365-day liquidity metric during the fourth quarter of 2010 because of the \$260 billion of term debt issuances in the second half of the year and the securitization of \$10.7 billion of multifamily loans out of portfolio during 2010.

Compliance with this test came from issuing more long-term debt to better match the maturities of illiquid assets (see Figure 11). Continued efforts to issue long-term debt and securitize additional whole loan asset classes will further strengthen overall liquidity.

Fannie Mae complied with FHFA's 30-day liquidity portfolio requirement throughout 2010. Management reduced debt rollover risk by issuing a large amount of term debt issuance to decrease its level of discount notes.

Fannie Mae's liquidity risk management practices improved but continue to be a significant concern. To address an outstanding examination finding about liquidity management, Fannie Mae implemented enhanced liquidity metrics and submitted a draft liquidity policy for FHFA review. FHFA expects full correction of the outstanding examination finding, including an approved liquidity policy, in early 2011.

The following actions improved liquidity risk management in 2010:

- Fannie Mae issued \$121.6 billion of long-term debt in the fourth quarter, bringing it into compliance with the 365-day liquidity requirement.
- Fannie Mae reduced discount notes outstanding after they increased substantially in the second quarter to fund the large volume of delinquent loan buyouts.
- Fannie Mae significantly decreased illiquid nonmortgage securities that do not qualify for liquidity risk management purposes during 2010.

## Interest Rate Risk Management

Interest rate risk management remained a challenge in 2010. Continued low short-term interest rates, declining housing prices and a larger proportion of distressed assets in the portfolio had a significant effect on measuring duration and optionality, making modeling

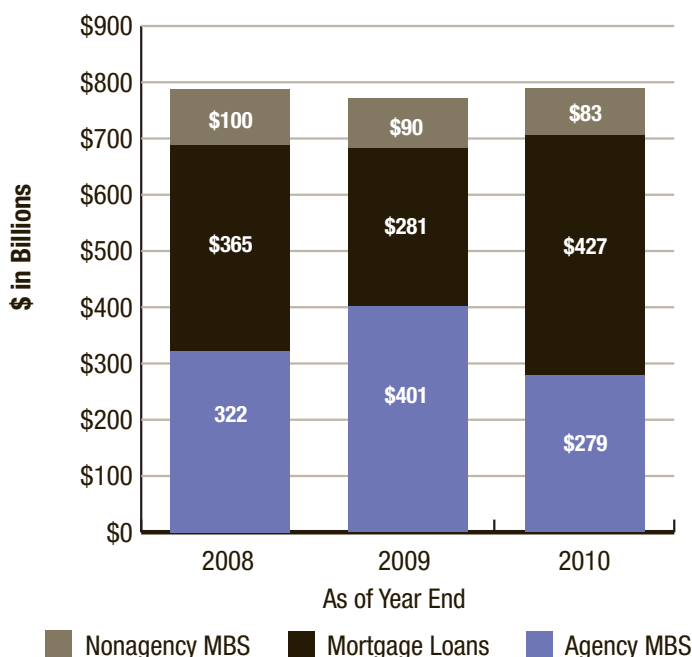
results less reliable and hedging decisions potentially less effective. These factors impeded Fannie Mae's ability to measure and manage interest rate risk exposures and often resulted in adjustments to production metrics.

While interest rate risk metrics indicate lower portfolio sensitivity to changes in interest rates, the impact remains significant in view of its impaired earnings and capital. FHFA has critical concerns about Fannie Mae's progress in expanding its analytical capabilities to achieve comprehensive and effective risk measurement, management, and reporting.

Interest rate risk management practices have improved in several critical areas including timely and effective reporting, tighter management of net duration and other risk metrics, and more refined analytics for managing options and yield curve risks.

In 2010, management improved board reporting for all interest rate risk metrics. When management approved changes to models used in estimating interest rate risk, it incorporated interest rate risk adjustments with the current model's results to replicate the approved changes until the new model was in production. This

Figure 12. Fannie Mae Mortgage Portfolio Composition



Source: Fannie Mae Monthly Summary



practice gave the board more accurate risk information earlier, promoting more effective communication and risk management.

Although Fannie Mae made progress improving controls over management's adjustments to production metrics, weaknesses continue, particularly for adjustments based on the distressed asset subportfolio. Fannie Mae needs to implement a more effective and transparent exception process for its risk measurement procedure with stronger oversight and adequate controls to strengthen risk reporting. Integrating distressed asset modeling into the main process for production metrics will add discipline into estimating distressed asset exposure.

In 2010, management made significant progress addressing several examination findings for interest rate risk. Capital markets risk management took several key steps to address the remaining issues from 2008 that need correction. Fannie Mae created a reasonable strategy to reduce the counterparty exposure and total holding in derivatives, and tested systems that allow swaps and futures trading through a central clearinghouse and exchange. In addition, Fannie Mae successfully corrected three other 2008 outstanding examination findings related to interest rate risk.

## Retained Portfolio Management

During 2010, illiquid assets increased in the \$789 billion retained portfolio. Illiquid assets constituted 65 percent of the retained portfolio in 2010, compared with 48 percent in 2009 and 59 percent in 2008 (see Figure 12).

At year-end 2010, mortgage loans constituted 54 percent of the retained portfolio (multifamily loans and distressed single-family loans). Ten percent of the retained portfolio was illiquid nonagency securities (private-label MBS, commercial MBS, and mortgage revenue bonds) and 35 percent was agency MBS. Liquidity of the retained portfolio will likely worsen during 2011 as Fannie Mae continues to purchase delinquent loans out of pools while shrinking its retained portfolio to manage within caps set by the Preferred Stock Purchase Agreement with Treasury.

FHFA continues to have concerns about inadequate securitization capability for the increasing portfolio illiquidity. For example:

- No plan exists for securitizing modified or reperforming loans.
- Fannie Mae stopped plans for pooling from portfolio adjustable-rate whole loans and interest-only whole loans. Management cited the diversity in the types of these loans as creating significant operational hurdles.

Fannie Mae successfully securitized \$8.7 billion of multifamily loans out of portfolio during the fourth quarter. Although Fannie Mae formally exited the flow reverse mortgage business in late 2010, this \$51 billion portfolio has liquidity risk that could be reduced through securitization.

The pace of Fannie Mae's new securitization efforts, coupled with the increasing share of illiquid whole loans, requires further action to address retained portfolio illiquidity. New securitization efforts are positive developments, but more work is required to reduce illiquid assets in the retained portfolio.

Fannie Mae subportfolios of illiquid assets can be further reduced. Because these illiquid assets depend upon key personnel and systems, reducing them would simplify operations. FHFA and management have discussed the need for a plan that balances risk and return and sells illiquid assets in a controlled manner over the next few years.

## Distressed Asset Management

The distressed assets subportfolio grew dramatically, increasing model, interest rate, and funding risks. Distressed assets are loans with credit problems, generally loans that are or were delinquent or that have modified terms or conditions.

These assets represent a significant and growing portion of the retained portfolio as the portfolio shrinks from the sale or pay off of other assets. Distressed assets pose unique problems in the measurement and management of interest rate risk. The uncertainty in

consumer responses to house prices, government housing policies, state foreclosure laws, and a lack of relevant historical loan data affect the measurement of the duration exposure of distressed assets.

Risks from these distressed assets should be integrated into the overall modeling process, and modeling assumptions should be transparent. Management should watch closely to make sure that if there are changes in the characteristics of distressed assets that they are incorporated into the development of new models.

## Operational Risk Management

**Operational risk is rated critical concerns.** The operating environment remains highly stressed due to legacy technology and the inordinate amount of sub-optimal processes and controls used to manage them. These risks increased during 2010 because of unprecedented volume of transactions in problem loans and loss mitigation processed through this function. This operational structure inefficiently processes and controls transactions, increases the risk of operational incidents, and causes dependency on personnel who are the only people on staff who understand the unique features in the proprietary systems. It will take several years to make a number of needed corrections.

During 2010, Fannie Mae addressed or made significant progress in addressing outstanding examination findings and several issues in both the structure and management of operations. However, many issues, such as the lack of an independent operational risk oversight function, have been outstanding for years and are still in various stages of completion.

## Information Technology

Legacy technology produces a fragile, complex, and inflexible infrastructure. Technology challenges include system complexity, poor system integration, inadequate data management, and multiple interfaces that create the need for manual work-arounds and multiple data reconciliations. Inflexible, proprietary technology often necessitated the use of inefficient, poorly controlled end-user computers for long periods. Issues and

events created or contributed to by these conditions include:

- The lack of automated processing systems created delays in closing monthly financial statements due to the need for extensive reconcilements and duplicate validation of data.
- Legacy system limitations have contributed to the inability to securitize reverse mortgages, multifamily loans, and reperforming loans (purchased from MBS trusts), limiting their liquidity.
- High profile operational events occurred during 2010 in the areas of other-than-temporary impairment, trade allocations for “to be announced” mortgage securities, Making Home Affordable data disclosure, and numerous cash management errors.

***The Enterprise has made progress in stabilizing the technology environment. But the breadth and depth of IT and control issues are substantial, and many corrections will require several years to complete.***

The Enterprise has made progress in stabilizing the technology environment. But the breadth and depth of IT and control issues are substantial, and many corrections will require several years to complete. To continue correction in technology and controls, management must plan solutions that incorporate risk prioritization and technology rationalization.

To improve efficiency and controls, Fannie Mae hired a vendor to incorporate its highest risk end-user computers into its main systems. This initiative will correct the

cause of one significant operational event, and is expected to help close two outstanding examination findings. Work began near the end of 2010 and significant work remains.

During 2010, management closed five examination findings pertaining to model exception policy, system development life cycle (the process of building technology systems), data management, operational metrics, and establishment of IT status updates. In addition, management enhanced IT reports and metrics, but several metrics are still not fully operational. Management also made substantial progress on a majority of remaining examination findings. Outstanding examination findings remain in governance, system development life cycle, data management, and information security.

FHFA noted substantial progress during 2010 to improve data and data management. Management closed its data dictionary examination finding and submitted its correction plans to FHFA by the year-end 2010 due date for the remaining data examination findings.

## Internal Controls

The fragile, complex and inflexible infrastructure negatively affect the management and control of operations processes. The unique processes associated with legacy and proprietary systems increase the dependency on manual processes, preventing or impeding the use of optimum controls in several areas. They also create operational risk by reducing interchangeability among personnel—the Enterprise must rely on a few people who understand a particular system or process. Issues and events created or contributed to by these conditions include:

- Weak controls for collection and use of Mortgage Electronic Registration System (MERS) data resulted in a backlog of data exceptions between MERS and Fannie Mae’s servicers. MERS maintains mortgage information for many in the mortgage industry in a central location.
- The business continuity plan is not aligned with the application continuity plan, increasing risks for recovery from an operational event.
- Management has not been able to consistently demonstrate robust and effective servicer performance management.
- Management improved the system development life cycle during 2010, but it remains a supervisory concern.
- An FHFA examination of mortgage insurance determined Fannie Mae’s need to strengthen management and accountability for the design of internal controls.
- Management discovered some control deficiencies in vendor management during an event in mail room operations that support Fannie Mae’s loss mitigation efforts.

Correction has been slow for several reasons: the enormity of the systems issues, numerous changes in personnel, organizational structures, and initiatives to addresses operational deficiencies. Management made progress in correcting deficiencies, but many problems cannot be fully addressed until improvements in information technology are completed.

Key person dependency increased because of high employee turnover due to the Enterprise’s uncertain future. Turnover was high in management and subject matter experts working in finance and accounting areas. The chief financial officer resigned before year-end, just before the filing of the 2010 annual financial statements. The corporate controller and several vice presidents in single-family accounting left in 2010. However, management did fill a number of key leadership vacancies during 2010.

Throughout 2010, management made some progress in documenting the Enterprise’s complex business architecture, identifying major gaps and problem points and began outlining a target state architecture.

Management implemented many improvements to the

system development life cycle to address three findings from examinations. Management acknowledges that additional work is required. Corrections included the following:

- Policies were revised to include quality assurance.
- The system development life cycle was expanded to include the development of end-user computers.
- To address a pattern of severe system development life cycle and change management deficiencies from early 2010, management maintained a code production freeze and an executive review throughout the year.
- The Project Quality Office began assessing project risk earlier to better detect and avoid errors in system coding.

Operations strengthened its controls by establishing and continuing to expand a risk management office within the business unit. The risk management office now functions as a central point of contact for operations management for the status of all issues and corrective actions noted by FHFA, consultants, management, and internal and external auditors. During 2010, the office improved root cause analysis and correction reporting in operations.

In response to an outstanding examination finding, management made progress in establishing an Office of the Chief Information Security Officer. Management needs to complete the governance and reporting for this office before FHFA can determine if the program is effective.

## Operational Risk Oversight

The chief risk officer cannot provide management and the board with an independent, aggregate view of the Enterprise's operational risks. Although stipulated in the 2006 consent order, management has been unable to develop a robust and fully effective operational risk management program despite ample time to develop this function.

Turnover and vacancies have contributed to delays in developing operational risk oversight. Leadership changed three times in the last two years, with the most recent change near the end of 2010. Key positions for loss mitigation operations remained open for much of 2010.

Operational risk oversight did make some progress, including completion of the risk and control self-assessments for all identified high-risk functions and processes within the Enterprise. This assessment identified numerous risk mitigation and process improvement observations.

Throughout 2010, management for operational risk oversight worked to correct examination findings. FHFA issued three examination findings in 2009 on development of operational risk oversight and one finding in late 2008 about the frequency of board reports. Although they improved report frequency, the quality of report content remains a concern. The reports contain a large amount of information about operational risks within the business units but do not sufficiently combine the information to help executives understand and manage the risks.

## Model Risk Management

Though model risk management improved substantially, it remains a significant concern. During 2010, the level of model risk, the risk that model results are not accurate, stabilized, but remained high. Most key models continue to perform adequately, and management significantly improved important house price forecasting models and completed needed upgrades to credit models.

A new unit strengthened operational controls, model risk oversight improved due to enhanced practices, and the audit model function expanded significantly and now has adequate resources. However, cost-cutting efforts slowed model development and increased personnel risk. Credit and market risk models will not be integrated until later in 2011, and model performance tracking, though improved, is incomplete in certain areas and immature in others. Some controls over

model change management, correction of issues, and some model adjustments to interest rate risk production metrics still require strengthening.

Models are used to produce key metrics that are critical to loss mitigation, financial reporting, pricing assets, and the measurement of market and credit risks. The most important drivers behind these metrics were difficult to project accurately, including mortgage prepayments, default rates, severity rates, and home prices. However, model risk was likely reduced in some applications as new loans with stronger underwriting and eligibility standards were booked.

***During 2010, the level of model risk, the risk that model results are not accurate, stabilized, but remained high. Most key models continue to perform adequately, and management significantly improved important house price forecasting models and completed needed upgrades to credit models.***

Key elements of the credit model evaluation include:

- Uncertainty in house price forecasting remained high due to the stressed housing market and the unknown effect of government programs. Fannie Mae significantly improved the reliability of both its local market and national forecasts. Additional work to address model deficiencies should be completed in the first part of 2011.
- Full correction of outstanding issues is not expected until the first half of 2011. Control issues were noted in model documentation,

change management, and some adjustments to interest rate risk production metrics.

- Multifamily loss reserve and forecast model tracking is new. Credit model tracking reports should be more comprehensive and informative, with better defined performance measurement thresholds.
- A new model improved the measurement of loss reserves. A revised severity model for loss forecasting was put into production. A streamlined process updates the fair-value application with more timely credit model revisions.
- Loss mitigation analytics improved, though loss mitigation decisions have only begun to improve because model results are derived from thin data and uncertainty in house price forecasts. Management should continue to develop ways to use model output to better inform decisions in servicer management and asset disposition.

Key elements of the market model evaluation include:

- Management responded to market stresses and uncertainties by updating key prepayment models several times during the year.
- A work-around used to help estimate interest rate risk for the distressed loan portfolio increases operational risk for this process. The solution, a single platform that integrates credit and market models, is past due but should be completed in 2011.
- The process for some adjustments to interest rate risk production metrics required strengthening in some internal disclosures and controls.

Key elements of the model governance and controls evaluation include:

- Three key elements of model governance and controls—business unit controls, model audit,



and independent model risk oversight—improved significantly in 2010, though certain weaknesses remained.

- The Enterprise is working to both enhance model controls and cut costs to increase operational efficiency, and this combination poses risks.
- Internal controls over financial reporting models improved. This function provided support in quality assurance and correcting issues noted by auditors and FHFA and improved the segregation of duties among model development, testing, and production implementation.

- A model oversight and change management committee helps prioritize needed model changes. Its responsibilities should be expanded to include some aspects of model risk management.
- Model risk oversight provides independent model validations and updated policies and standards and oversight in key areas but needs to strengthen some areas of policy enforcement, model adjustments, and the resolution of validation findings.
- The audit model team significantly strengthened its staffing and skills. The audit program now includes an inventory of model risk and a risk-based model audit plan. However, this function is not yet mature.



# Report of the Annual Examination of Freddie Mac (Federal Home Loan Mortgage Corporation)

## Examination Authority and Scope

This *Report of Examination* contains the results and conclusions of FHFA's 2010 annual examination of the Federal Home Loan Mortgage Corporation (called Freddie Mac, or the Enterprise) performed under section 1317(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 as amended (12 USC § 4517(a)). FHFA's annual examination program assesses the Enterprise's financial safety and soundness and overall risk management practices. The framework FHFA uses to report examination results and conclusions to the board of directors and Congress is known as GSEER, which stands for *Governance, Solvency, Earnings, and Enterprise Risk* (enterprise risk comprises credit, market, and operational risk management).

## 2010 Examination Scope

In 2010, FHFA focused on assessing the board's and management's responses to continued distress in the housing market and its effect on the Enterprise's risk profile and condition. FHFA particularly focused on various efforts to mitigate losses. In addition, examination activities assessed:

- the effectiveness of the board of directors;
- quality of executive management;
- enterprise-wide risk management and audit functions;
- accounting estimates and their effect on disclosures, earnings, and loss reserves;
- key model performance;
- counterparty exposure and credit risk management;
- liquidity and interest rate risk profiles and risk management practices;
- the internal control environment; and
- risks in information technology, data quality, and business continuity.

## Rating

**FHFA assigns Freddie Mac a composite rating of critical concerns.** Enterprises with critical safety and soundness concerns exhibit severe financial, nonfinancial, operational, or compliance weaknesses. Enterprises with this rating require more than normal supervision to ensure deficiencies are addressed. Definitions for all composite ratings are in FHFA's *Supervision Handbook*.

FHFA first assigned this rating at mid-year 2008, which reflected concerns that ultimately led to the appointment of FHFA as conservator. The appointment of FHFA as conservator, combined with U.S. Treasury financial support, Federal Reserve actions, and new management at the Enterprise have stabilized the Enterprise's condition, but it still requires capital infusions from the U.S. Treasury. This report identifies some of the improvements the board, management, and staff of Freddie Mac have made under conservatorship to help stabilize the Enterprise and maintain its support of the secondary mortgage market.

## Examination Conclusions

Freddie Mac's composite rating is driven by the stressed economy and the resulting credit problems' continued effect on the Enterprise's operations and counterparties. Credit losses and related expenses significantly contributed to the Enterprise's \$14 billion net loss in 2010. The high volume of problem loans has negatively affected earnings, complicated risk measurement and management, and strained the Enterprise's capacity to control and improve legacy systems and processes.

The board and management completed or made progress in addressing many significant problems. These problems were created during this stressed economy or have been outstanding for years at the Enterprise. Much remains to be done, and outstanding issues are in various stages of completion. The most acute areas in need of correction are in operations, multifamily, and counterparty risk management.

## Governance

**Governance is rated significant concerns** because of external challenges facing management and the board of directors and the resulting pressures on the Enterprise's governance framework and practices. Management should strengthen some practices within several Enterprise functions. Management began improvements in all of these areas.

## Earnings

**Earnings are rated critical concerns.** The Enterprise lost \$14 billion in 2010. Although 2010 net losses declined by \$7.5 billion, Freddie Mac remains dependent on support from the U.S. Treasury.

Net losses were driven by credit-related expenses that exceeded revenues. The decline in net losses for the year resulted from fewer seriously delinquent loans due in part to management's home retention solutions and foreclosure alternatives. However, mark-to-market losses on derivatives and trading securities offset much of the benefit from lower credit-related expenses.

## Credit risk

**Credit risk is rated critical concerns**, which is driven by a book of business stressed by economic weaknesses, particularly in the housing sector.

The single-family loan division expended significant resources managing credit exposure and losses and seeking foreclosure alternatives for stressed borrowers. New management strengthened servicing and default asset management and worked to address examination findings in this area. Management also strengthened the credit organization within enterprise risk management and announced plans to reorganize the credit management function.

Multifamily and counterparty credit risk management was unsatisfactory in several areas, but management took steps to improve these areas. Multifamily asset management was poorly managed and lacked the necessary process and controls to identify, evaluate, and control problem assets. Counterparty credit risk management suffered from insufficient staffing numbers and skill levels, along with a lack of basic analyses to support critical decisions.

## Market Risk

**The market risk rating improved to significant concerns** during 2010 because of improvements to liquidity risk management and progress in addressing significant matters previously raised by examiners.

Interest rate risk is high relative to limited earnings and capital. The retained portfolio's illiquid assets significantly increased and the distressed assets subportfolio grew from \$25 billion to \$118 billion, which increased model, interest rate, and funding risks. The increase was caused by purchases of delinquent loans from single-family mortgage-backed securities (MBS) trusts.

Unprecedented uncertainty in prepayment estimates arising from changes in borrowers' creditworthiness and home equity reduced the reliability of interest rate risk model results. Management appropriately adjusted model results in a controlled manner to accommodate the changes.

## Operational Risk

**Operational risk is rated critical concerns.** The operating environment remains stressed from legacy architecture used to process an unprecedented volume of problem loans. The high number of manual processes and end-user computing applications lead to dependencies on key persons who understand proprietary processes and systems, which increases operational risk.

During 2010, the Enterprise made progress in strengthening several aspects of operational risk management, but there is still much work to do. The Enterprise's major technology project is in its initial phase, and management views the project as essential for improving processes and controls, and stabilizing the legacy infrastructure. Accomplishments include reorganizing several operational functions, hiring key people for open positions, and meeting early dates for deliverables in the information security program and technology project.

## Model Risk

**Model risk management is rated significant concerns.** The inherent risk in models has stabilized but still is high because of the effect the stressed national economy has on model results. Most key models performed adequately.

Management reorganized several model functions to address recognized issues in controls and management and produce a more efficient and effective structure. The reorganization appears well designed and should be completed by year-end 2011. Management cut costs for the model development and control units to enhance operational efficiency. However, these cuts slowed revision in some key models and may increase personnel risk. The audit department's model team provides strong support to model risk management.

## Governance

### Board of Directors

**Governance is rated significant concerns.** The board of directors fulfilled its responsibilities and has

appropriate limits, policies, procedures, and practices in place. Board operations are consistent with FHFA regulations and examination guidance. The directors are appropriately engaged in addressing key issues facing the Enterprise and directors receive sufficient information to fulfill their duties and obligations. The board's self-evaluation process also is consistent with FHFA requirements for professional practice.

## Executive Management

Management faced significant challenges in a difficult and uncertain environment. Industry-wide pressures strained the Enterprise's business operations, increasing vulnerabilities in the measurement and management of risk exposures

The Enterprise's risk management framework, which was designed to identify and address anomalies and outliers, has suffered under the weight of a variety of pressures. The shrinking number of counterparties has limited management's options in risk sharing and transfer. The risk management framework was not designed to deal with high numbers of weakened counterparties and troubled assets and must be reinforced.

Management satisfactorily achieved its corporate objectives. The Enterprise strengthened the management team. In late 2010, management revised the credit risk management organization and clarified the roles for the single-family and multifamily divisions, credit and counterparty risk management and enterprise risk management. Management also reduced the number of open examination findings during 2010 and is actively engaged with FHFA to resolve long outstanding findings from previous examinations.

**Special Review—Designated Counsel Program.** To address growing concerns about foreclosures by third parties, FHFA began a special review of the Enterprise's designated counsel program. This special review augmented management's efforts to assess the Enterprise's risk exposures, to address the immediate problems at one particular law firm, and to identify improvements to the designated counsel program. Management has begun to address noted weaknesses. FHFA's special

review is not complete, and the agency has not reached final conclusions.

## Financial Reporting Management

The financial reporting function (principally the accounting and controllership executive management group) executed its responsibilities adequately. The policy judgments and processes used in accounting are compliant with Generally Accepted Accounting Principles (GAAP), but delayed loan loss recognition when compared to other accounting treatments. The Enterprise continues to work with FHFA and Fannie Mae to standardize policy and practices for established and emerging accounting rules.

***...The Enterprise should maintain its high level of resources and executive support to the finance area for accurate accounting estimates and to meet financial reporting requirements and stakeholders' information needs.***

FHFA's concerns stem from several factors, including newly implemented and proposed accounting standards, and economic conditions that make certain accounting estimates more difficult. To meet these challenges, the Enterprise should maintain its high level of resources and executive support to the finance area for accurate accounting estimates and to meet financial reporting requirements and stakeholders' information needs.

On January 1, 2010, the Financial Accounting Standards Board (FASB) required the Enterprise to consolidate certain mortgage trusts onto the balance sheet from off-balance sheet accounts. The Enterprise appropriately addressed this issue.

The Enterprise satisfactorily managed critical accounting estimates for mortgage modifications, insurance

claims, and changes in collateral values. These accounting estimates have a high risk of error due to the difficulties in obtaining a sufficient amount of accurate historical data. Management monitored the quality of this data and regularly evaluated and updated assumptions used in its estimation process.

FHFA identified no accounting errors in its analysis of the Enterprise's other-than-temporary impairment credit loss estimates for private-label MBS. However, certain collateral performance projections were more optimistic than most available third-party projections at year-end 2009. These projections may have resulted in other-than-temporary credit impairment but were partially mitigated by the large impairment charges booked in the second half of 2010.

Accounting variances among the regulated entities FHFA examines reflected the significant judgment and inherent uncertainty involved in making critical accounting estimates. FHFA made a number of recommendations to make processes more transparent and consistent, and to ensure continued diligence around these critical assumptions.

FHFA also concluded that Fannie Mae and Freddie Mac had significant policy differences for troubled debt restructuring for many of their single- and multi-family loans. FHFA sent a comment letter to FASB regarding its standards-setting process and worked with the two Enterprises to identify and reduce differences in their accounting policies and practices.

FHFA noted no inconsistencies with GAAP compliance in the Enterprise's valuation of single-family loans. Despite this conclusion, FHFA believes management should reevaluate its policy to value delinquent loans based on fair value as well as GAAP. FHFA has concluded that using dealer-based prices helps produce the most relevant valuations.

FHFA recommended that the Enterprise review its operating systems used to produce financial statements as filed on the Securities and Exchange Commission's forms 10-Q and 10-K. The review should evaluate the significant backlogs in processing loan modification documents and identify areas to strengthen internal controls.

Freddie Mac identified a material weakness in disclosure controls and procedures that prevents it from obtaining some information held by FHFA that it may need to meet its disclosure obligations. Independent accounting firm Pricewaterhouse Coopers LLC (PwC) first assessed the risk that this weakness existed and then tested and evaluated the design and operating effectiveness of controls for this risk.

PwC issued an unqualified opinion on the 2010 financial statements. However, considering this material weakness associated with being in conservatorship, PwC issued an adverse opinion on the company's internal control over financial reporting.

## Internal Audit

Freddie Mac's internal audit function is well-managed, and the department achieved its 2010 performance objectives. Audit policies, procedures, and practices are consistent with FHFA regulations, guidance, and professional standards.

The internal audit department had no outstanding examination findings at year end. FHFA issued two findings regarding the department's follow-up on audit issues, and management corrected them during 2010.

The audit department experienced significant turnover in personnel during 2010, and management took action to limit the impact of turnover on department operations and effectiveness. Although 63 percent of audit personnel have more than three years of professional audit experience, 67 percent have fewer than three years of experience auditing Freddie Mac. The department's training program should appropriately train audit personnel in Enterprise-specific practices.

## Enterprise-wide Risk Management

Enterprise risk management significantly improved during 2010. The chief enterprise risk officer filled key leadership positions, including one in credit risk oversight. The new risk officer also enhanced risk identification and measurement and key risk indicators in risk reports.

The independent oversight function and the business line area worked together to enhance the framework

for troubled counterparties. Enterprise risk management played a major role in assessing documentation issues and exposures in the designated counsel program.

***Although 63 percent of audit personnel have more than three years of professional audit experience, 67 percent have fewer than three years of experience auditing Freddie Mac.***

## Mortgage Fraud

Management is aware of shortcomings in mortgage fraud management and is correcting them. At year-end 2010, FHFA completed the field work for an examination of mortgage fraud management and reporting. FHFA will issue examination findings to address areas needing improvement in 2011.

## Solvency

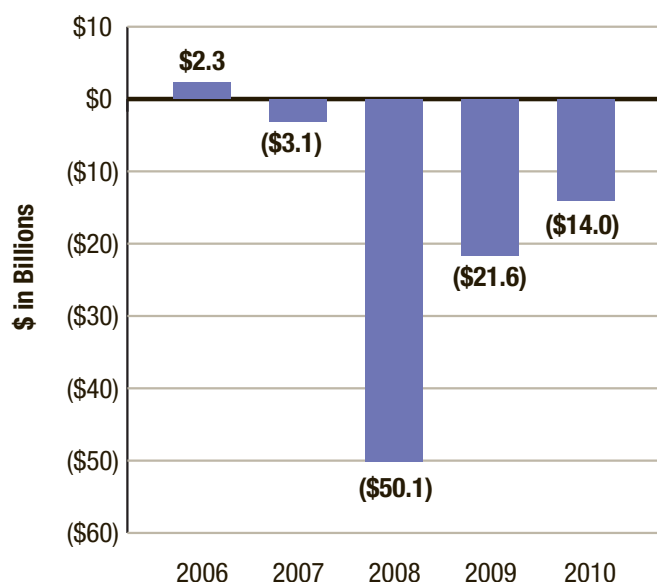
FHFA previously determined that capital classifications would be suspended during conservatorship, so FHFA did not issue capital classifications for Freddie Mac in 2010. During conservatorship, Freddie Mac's positive net worth has been supported by the U.S. Treasury under the Senior Preferred Stock Purchase Agreements.

Freddie Mac's draw requests for the four quarters in 2010 under the preferred stock purchase agreement were \$13 billion. The cumulative draw requests under the agreement through year-end 2010 were \$63.7 billion.

Freddie Mac's required draws from Treasury were primarily driven by the consolidation accounting transition adjustment and dividend payments to Treasury. Under the agreement, Treasury was to establish a periodic commitment fee payable to Treasury by Freddie Mac starting in 2011. Treasury notified FHFA on December 29, 2010, that the fee would be waived for the first calendar quarter of 2011.



Figure 13. Freddie Mac Earnings



Source: Freddie Mac Form 10-K

FHFA worked with Freddie Mac's capital and enterprise risk teams in 2010 to develop an economic capital model and address issues for capital management postconservatorship.

## Earnings

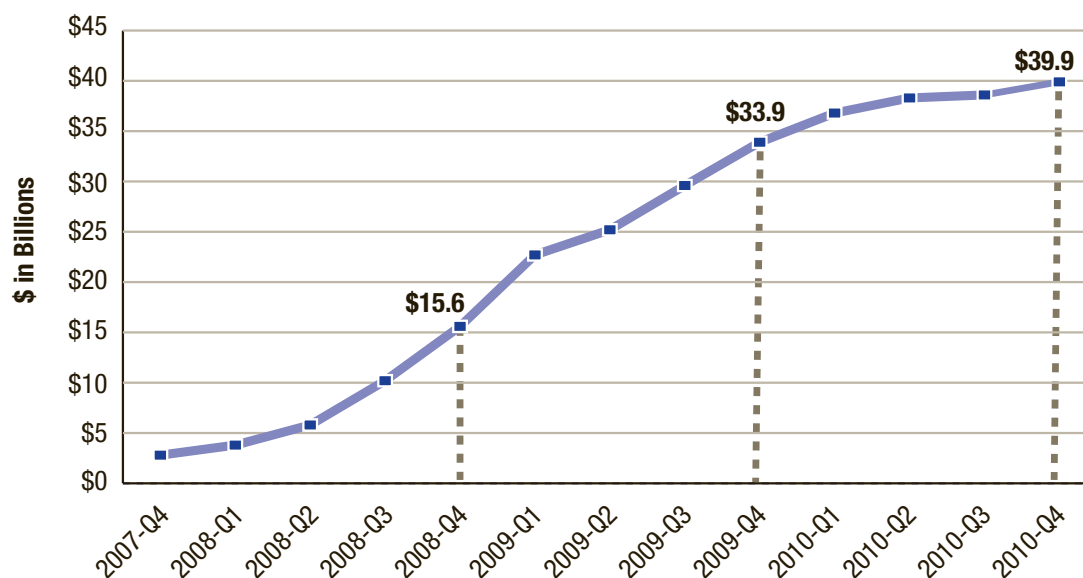
Freddie Mac's financial performance, absent financial support from the U.S. Treasury, remains rated critical concerns. Net losses continued for reasons similar to those in 2009—credit-related expenses and losses, particularly the provision for credit losses (see Figure 14). Throughout 2010, relatively poor economic conditions, such as high national unemployment rates and anemic house prices, contributed to high levels of mortgage delinquencies. Serious delinquent loans remained relatively high but lessened after peaking in the first quarter of 2010.

Net losses, although significant, decreased in 2010 to \$14 billion from \$21.6 billion in 2009. Fewer serious delinquencies reduced the need for further substantial increases in loan loss reserves. Consequently, Freddie Mac's loan loss reserves increased \$6.1 billion to \$39.9 billion at year-end 2010 as compared to an increase of \$18.2 billion in 2009 (see figures 13 and 14).

Earnings benefited from:

- substantially lower credit-related expenses and losses;
- lower security impairments; and
- lower administrative and other expenses.

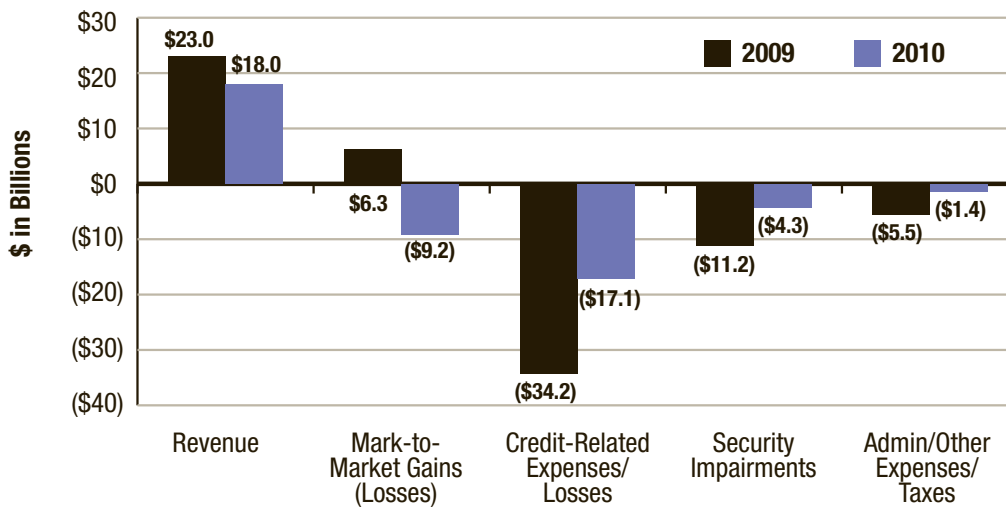
Figure 14. Freddie Mac Credit Loss Reserve



Source: Freddie Mac Forms 10-Q and 10-K



Figure 15. Freddie Mac Earnings Detail



Source: Federal Housing Finance Agency and Freddie Mac Form 10-K

However, these were partially offset by a shift to mark-to-market losses from mark-to-market gains.

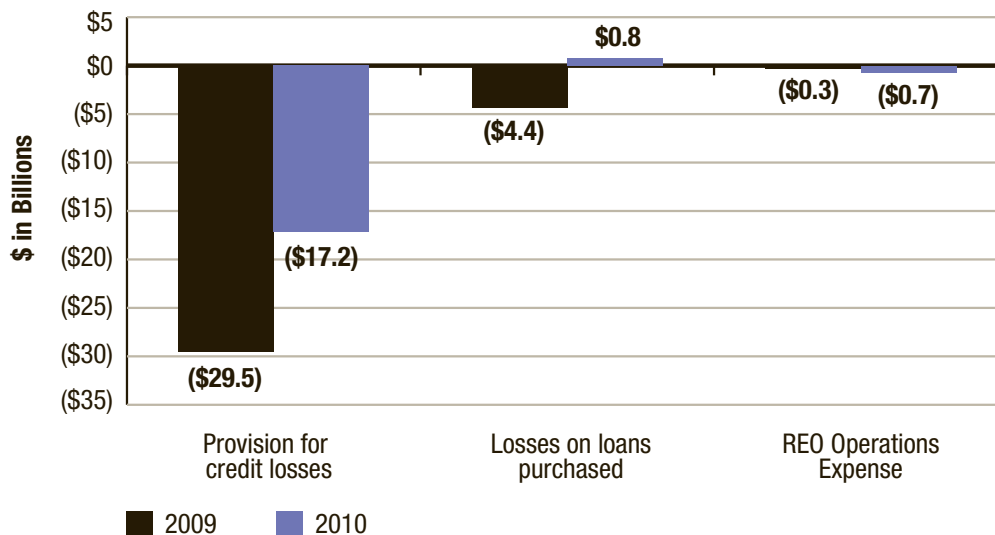
### Credit-Related Expenses and Losses

Credit-related expenses were substantially lower than in 2009. However, the extent of the expenses and losses continued to drive overall net losses for 2010. The provision for credit losses fell by 42 percent in 2010 to \$17.2 billion driven by fewer seriously delinquent loans (see Figure 15).

Increases in permanent loan modifications during 2010, a reduction in the portfolio of more risky loans from previous years, and higher acquisitions of foreclosed property contributed to lower credit-related expenses. In 2010, Freddie Mac completed more than 170,000 single-family loan modifications, an increase of 162 percent over the 65,000 modifications in 2009.

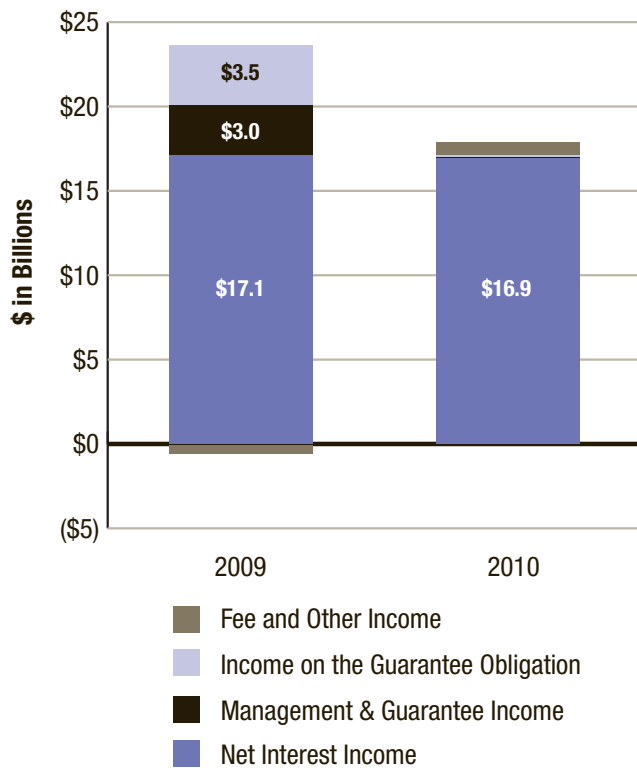
By contrast, Freddie Mac experienced a significant increase in seriously delinquent loans and a steep decline in house prices during 2009, resulting in a substantial increase in loan loss reserves.

Figure 16. Freddie Mac Credit-Related Expenses



Source: Federal Housing Finance Agency and Freddie Mac Form 10-K

Figure 17. Freddie Mac Revenue



Source: Freddie Mac Form 10-K

As a result of adopting new accounting standards on January 1, 2010, Freddie Mac was no longer required to recognize fair-value losses on credit-impaired loans purchased out of MBS trusts because such trusts are now held on the balance sheet. Consequently, almost all of Freddie Mac's MBS trusts moved onto the balance sheet, which essentially eliminated the recording of this type of loss in 2010 financial statements, compared to \$4.4 billion of such losses in 2009 (see Figure 16).

## Security Impairments

Security impairments decreased significantly in 2010 to \$4.3 billion from \$11.2 billion in the prior year, driven primarily by a 2009 accounting change. Beginning in the second quarter of 2009, only the credit portion of other-than-temporary impairments was recognized in earnings. The overwhelming majority of the impairment charge incurred in 2009 related to the first quarter, before the change in impairment accounting.

Security impairments continued in 2010 based in part on certain subprime and Alt-A securities, which experienced deteriorated value in underlying collateral and projected lower credit enhancements.

## Revenue

Revenue decreased in 2010 to \$18 billion from \$23 billion in 2009, mainly attributed to the adoption of new consolidation accounting standards, which moved almost all the Enterprise's MBS trusts onto the balance sheet (see Figure 17). Because of the new accounting standards:

- Freddie Mac stopped recording guarantee fee income on MBS trusts and started recording net interest income for these assets instead. Consequently, guarantee fee income in 2010 fell to \$0 from \$3.5 billion in 2009.
- Freddie Mac does not record interest income on loans that are 90-plus days delinquent. A substantial number of loans brought on balance sheet as a result of accounting consolidation were 90-plus days delinquent, so total revenue was reduced by lower interest income from this population.

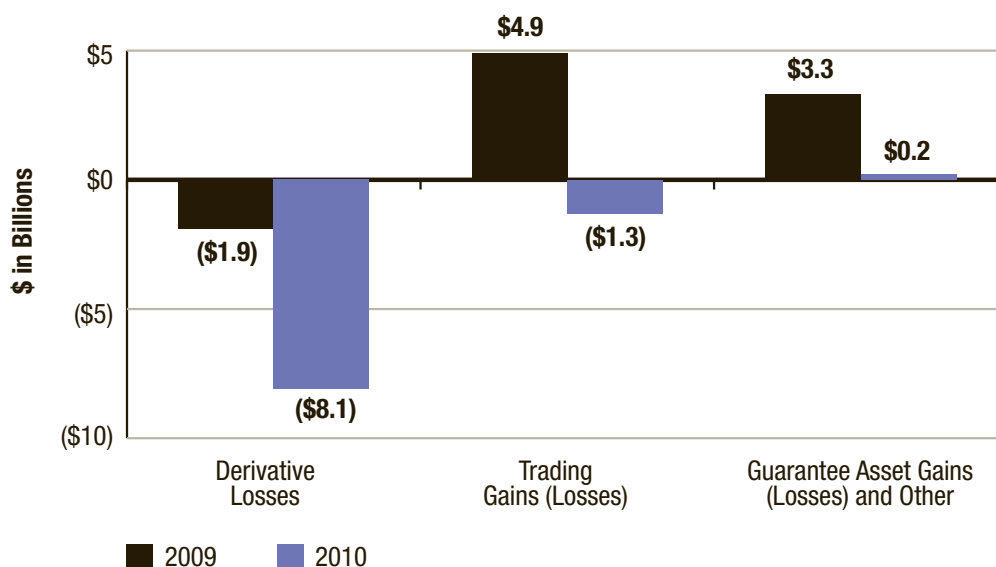
Revenue benefited from low debt funding costs throughout 2010 because of relatively low benchmark Treasury rates and debt spreads to Treasury. Freddie Mac replaced higher cost short- and long-term debt with lower-cost debt in 2010.

## Mark-to-Market Gains (Losses)

Freddie Mac experienced \$9.2 billion in mark-to-market losses in 2010, compared to gains of \$6.3 billion in 2009. The decrease in swap rates drove higher derivatives mark-to-market losses in 2010 at \$8.1 billion versus losses in 2009 at only \$1.9 billion.

Freddie Mac experienced trading losses of \$1.3 billion in 2010, compared to gains of \$4.9 billion in 2009. This change was driven by consolidation accounting, which led to a decrease of MBS in the trading account (see Figure 18).

Figure 18. Freddie Mac Market-to-Market Value Gains (Losses)



Source: Federal Housing Finance Agency and Freddie Mac Form 10-K

## Administrative and Other Expenses

In 2010, administrative and other expenses returned to a more normal level at \$1.4 billion, in contrast to 2009 levels of \$5.5 billion. This is largely because Freddie Mac wrote off the carrying value of its low-income housing tax credit partnership investments in 2009, recording a write-down of \$3.4 billion. The Enterprise cannot sell or transfer these investments.

## Credit Risk Management

**Credit risk is rated critical concerns** due to weaknesses in the Enterprise's single-family, multifamily, and investment books of business. The risk to the Enterprise from counterparties increased because of a trend toward consolidation of companies in the industry and those companies' aggressive management of their credit exposure. The single-family loan book's poor performance continued throughout 2010.

Real estate owned and credit losses increased significantly, and the volume of seriously delinquent mortgages remained elevated. The multifamily loan division's key metrics for credit performance worsened during the year, and declining property values are expected to stress refinancing of loans maturing in the

next few years. The Enterprise's private-label mortgage-related securities continue to exhibit poor credit performance.

Risk management for multifamily asset management and counterparty credit risk was unsatisfactory, but management either corrected or made significant progress in addressing issues in these divisions. Management also reorganized some functions, better managed credit exposure and losses, and offered foreclosure alternatives for qualifying borrowers. Concerns and improvements included:

- Management of the problem loan watch list in the multifamily division lacked the necessary process and controls to identify, evaluate, and control problem assets.
- Counterparty credit risk management issues included weak staff skills and numbers, counterparty analysis without benchmarking, inaccurate exposure calculations used to determine compliance with counterparty limits, and no basic analyses to support some critical decisions.
- Management worked to reduce delinquencies, losses, and foreclosures.

- Management tightened mortgage underwriting and eligibility standards for new acquisitions.
- New management strengthened servicing and asset management and addressed several examination findings in this area.
- Management strengthened the credit organization within the enterprise risk management department and announced the reorganization of the credit management division.

## Single-Family Loans

Real estate owned inventory increased 60 percent to 72,079 properties at year-end 2010 from 45,047 properties at year-end 2009.

Single-family seriously delinquent mortgages declined during 2010 but remained well above levels before the financial crisis and are still a concern for FHFA. During 2010, the seriously delinquent mortgage rate declined to 3.84 percent from 4.2 percent the previous year. The Enterprise's loan modification programs contributed to the lower rate of seriously delinquent mortgages. Also, improved credit attributes and superior performance in mortgages acquired during 2009 and 2010 contributed to this lower serious delinquency rate.

Single-family credit losses increased 78.5 percent to \$14.1 billion during 2010 from \$7.9 billion during 2009. Credit losses were concentrated in California, Nevada, Arizona, and Florida. These states represented about 62 percent of the Enterprise's credit losses in 2010. Mortgages originated in 2005, 2006, and 2007 accounted for about 84 percent of credit losses in 2010.

Management increased the loan loss reserve during 2010 to cover its estimates of higher credit losses. The single-family loan reserve increased 1.2 percent during 2010, rising from \$33 billion to \$39.1 billion at year end. Estimated losses from loans originated between 2005 and 2008 represent more than 87 percent of the reserve, even though these loans represent only 39 percent of the Enterprise's book of business. Mortgages in

California, Florida, and Arizona represent 43 percent of the reserve, but only 24 percent of the single-family loan portfolio. Losses from nonperforming loans (seriously delinquent and troubled-debt restructured loans) increased 18.5 percent to \$122.4 billion from \$103.4 billion during 2010.

## ***Losses from nonperforming loans (seriously delinquent and troubled-debt restructured loans) increased 18.5 percent to \$122.4 billion from \$103.4 billion during 2010.***

Management sought to minimize credit losses through the Making Home Affordable and other loss mitigation programs. The Enterprise hired a new executive vice president in 2010 to strengthen servicing and asset management. He introduced improvements in risk identification, measurement, and reporting. In addition, management addressed several examination criticisms from 2009 about quality control of problem loan inventory and servicers' repurchase of problem loans. Management also launched a number of pilots and initiatives, including:

- refinancing loans with low equity;
- hiring contractors to help manage modified loans;
- increasing short sales of homes;
- renting homes in their real estate owned inventory; and
- transferring loan servicing to servicers better able to process problems loans.

During 2010, management strengthened the credit organization within enterprise risk management and announced the new organization for the credit management division. Management undertook the reorganization to improve reporting lines, delegations of

authority, management reporting, loss mitigation, default asset management, and loan servicing.

Freddie Mac has been challenged by its significant exposure to servicers that delay or avoid repurchasing problem loans. Servicers have aggressively challenged their obligation to repurchase these loans. Freddie Mac reduced its amount of aged, outstanding repurchases by reaching agreements with two counterparties, which repurchased \$3.8 billion total in problem loans in 2010. Enforcement of outstanding repurchases is critical to managing credit losses.

In late 2010, Freddie Mac learned that several servicers' affidavits, used to reach judgments in foreclosure cases, may have been improperly notarized. In judicial foreclosure states, the signer must confirm personal knowledge of the debts or review of the paper work. These problems have delayed foreclosures.

In 2010, management improved the performance of new mortgage purchases by tightening credit standards for underwriting and eligibility and lender quality control. The 2010 vintage's credit risk characteristics are much better than previous years. Loans from the much-improved 2009 and 2010 vintages now represent 39 percent of the total single-family portfolio and should help improve the long-term credit performance of the entire portfolio.

## Multifamily Mortgage Business

During 2010, vacancy and concession rates improved, but these improvements were not sustained and did not improve the performance of multifamily loans. Despite the year's poor metrics, the business unit still is profitable. Key performance metrics from year-end 2009 to year-end 2010 include:

- real estate owned inventory increased from 5 to 14 properties;
- serious delinquency rate increased from 0.20 percent to 0.26 percent; and
- credit losses increased from \$41 million to \$100 million, which decreased the multifamily loan loss reserve from \$831 million to \$828 million.

FHFA found management of the multifamily loan book was unsatisfactory in several areas, including:

- Watch list asset management lacked the necessary process and controls to identify, evaluate, and control problem assets. FHFA noted problems in asset risk rating, asset migration among watch list categories, compliance with policy, action plans for problem credits, and data used in reports and decisions.
- Analysis and metrics for problem credit did not adequately incorporate troubled-debt restructurings.

Multifamily risk management improved, which included the development of an intensive action plan and timeline to address examination findings for watch list issues. Management now develops an action plan for each troubled loan on the watch list. The action plan includes triggers and actions to ensure increased monitoring and remedies for deteriorating loan performance. The Enterprise also monitors each loan's maturity and uses in it prioritizing the resolution of its high-risk loans. However, management should increase actions to protect the value of assets backing loans prior to a default.

In 2010, organizational structure changes were initiated to address weaknesses and turnover in three divisions affecting multifamily credit—the multifamily business unit, enterprise risk management, and credit management. The reorganization is expected to improve controls in credit and other risk areas. Management also filled key open positions and substantially increased the asset management staff.

## Counterparty Credit Risk Management

Counterparty risk is high and increasing. Many financial institutions have consolidated, making it difficult for Freddie Mac to diversify and manage risk. In addition, many counterparties are now more aggressive in questioning their obligation to cover credit-related expenses from problem mortgages.

Mortgage repurchase obligations comprise a significant portion of the counterparty risk exposure. At the end of 2010, Freddie Mac's unpaid repurchase obligations were \$3.8 billion, versus \$4.2 billion in 2009. The Enterprise reached an agreement with two servicers in 2010 to resolve their liabilities from mortgages and private-label MBS. These agreements reduced exposure, potential litigation, and expenses from collecting outstanding repurchases.

The mortgage insurance industry remains under stress. Many mortgage insurers manage their payment obligations through increased investigations, reducing their loss payouts but potentially increasing the Enterprises' losses. Mortgage insurers now control risk from new loans through tightened underwriting standards and restrictions on insuring properties in higher risk markets. The Enterprise drafted new eligibility guidelines for mortgage insurers and shared the draft guidelines with the mortgage insurers for comment.

***At year-end 2010, Freddie Mac's \$158 billion private-label MBS, mortgage revenue bonds and commercial MBS portfolios reflected more stable credit performance than in past years.***

Counterparty risk management was weak but improved under a new vice president hired in early 2010. In early 2010, the function's problems included:

- staff with weak analytical skills;
- counterparty analysis without benchmarking;
- inaccurate exposure calculations used to determine compliance with counterparty limits; and
- lack of many basic analyses to support critical decisions.

Freddie Mac addressed counterparty credit risk management issues through several actions, and the vice president continues making improvements in this function. Improvements include:

- updated and strengthened policies and processes.
- improved staff numbers and skills.
- improved analyses of counterparties.
- new models to calculate counterparty exposure for internal credit ratings and bank failure forecasting models.

## **Private-Label Securities**

Freddie Mac recorded \$4.3 billion credit losses in other-than-temporary impairments on its \$158 billion private-label MBS portfolio, including commercial MBS and mortgage revenue bonds. Improved liquidity during 2010 resulted in fair-value gains on commercial MBS of \$4 billion in 2010. Net fair-value declines on residential private-label MBS were \$2.45 billion for 2010. These declines were driven mostly by pay downs, while average mark-to-market prices increased over the same period.

At year-end 2010, Freddie Mac's \$158 billion private-label MBS, mortgage revenue bonds and commercial MBS portfolios reflected more stable credit performance than in past years. Management did not purchase private-label MBS or commercial MBS during 2010 because FHFA's 2008 moratorium on purchases remains in effect.

The Enterprise corrected several issues noted in the *2008 Report of Examination* in such areas as loss mitigation for private-label MBS and commercial MBS and in reporting capability and staffing for risk management of both private-label MBS and commercial MBS. Policies for private-label MBS and commercial MBS codified the expanded authorities of the chief credit officer, outlined delegations of authority, and established risk committees to cover both private-label and commercial MBS. Freddie Mac increased staffing so that it could appropriately monitor and manage reporting of private-label MBS and commercial MBS.



## Market Risk Management

Market risk is rated significant concerns. The rating is based on:

- a change in investment portfolio earnings caused by moves in market interest rates will deplete a large percentage of the Enterprise's already minimal capital and total earnings;
- the increased illiquidity of the balance sheet resulting from distressed assets;
- the increased unreliability in interest rate risk model estimates arising from the credit crisis; and
- limited weaknesses in risk management practices.

## Liquidity and Funding Risks

The risk associated with Freddie Mac's liquidity and debt funding activities continued to represent a significant concern but remained stable because of the government guarantee. While Freddie Mac continuously accessed short-term, long-term, and callable debt at favorable levels during 2010, it is doubtful that this funding access would have existed without government support. Agency debt spreads remained tight even as the Federal Reserve's purchase program concluded. However, no formal government liquidity backstop exists that would enable the company to convert its unencumbered agency collateral of \$330 billion (as of year-end 2010) to cash.

Liquidity risk management practices improved but continue to represent a significant concern based on an outstanding finding from a previous examination. Freddie Mac complied with FHFA's liquidity requirements and continues to work toward correcting a finding from 2008 to improve cash flow forecasting processes.

The following management activities improved Freddie Mac's liquidity risk management:

- Prefunding made the bulk of the delinquent loan buy outs more efficient and reduced the potential for liquidity problems and market

disruptions that could have occurred had the process been prolonged.

- Freddie Mac completed liquidating nonmortgage asset-backed securities by December 31, 2010, as required by an examination finding from 2008.

***Interest rate risk exposure measurement remained a challenge in 2010. Continued low short-term interest rates, declining housing prices, and a larger proportion of distressed assets had a significant effect on measuring duration and optionality...***

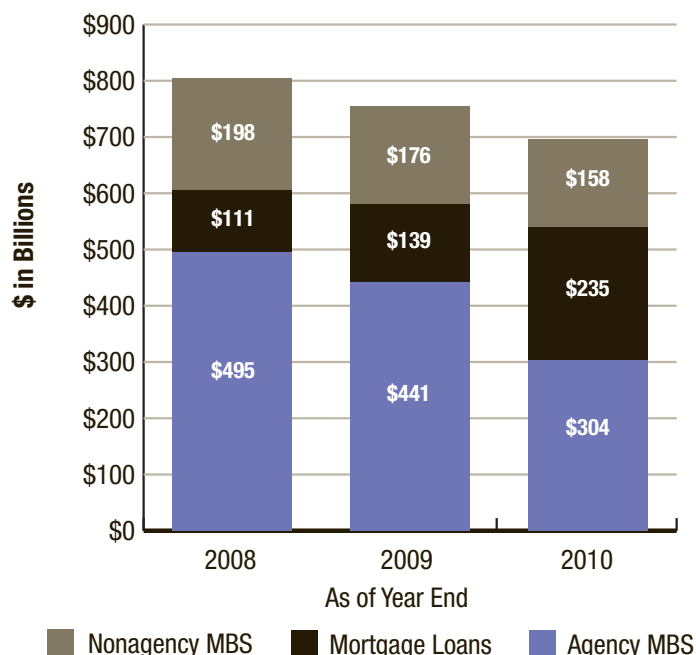
During 2010, Freddie Mac maintained:

- a minimum 30-calendar-day positive net cash position assuming no access to the agency debt markets;
- a Treasury bill/note position that covered 50 percent of its expected cash needs over a 30-day period;
- sufficient agency collateral to cover its largest cash shortfall over 365 days assuming no access to the agency debt markets; and
- a stable short-term debt to total debt ratio of 43.5 percent at year-end 2010, a slight increase from 42.4 percent at year-end 2009.

## Interest Rate Risk Management

Interest rate risk exposure measurement remained a challenge in 2010. Continued low short-term interest rates, declining housing prices, and a larger proportion of distressed assets had a significant effect on measuring duration and optionality, making modeling results

Figure 19. Freddie Mac Mortgage Portfolio Composition



Source: Freddie Mac Monthly Volume Summary

less reliable and hedging decisions potentially less effective. These external factors impeded Freddie Mac's ability to accurately measure and manage interest rate risk exposures.

Interest rate risk management practices continued to improve. Management strengthened controls and transparency for adjustments and reconciliations to model results until the model's revisions were complete. This process was effective for the several revisions to the prepayment model but requires improvement for adjustments for the securitization of some retained portfolio assets.

Management also took several steps this year to correct action items from 2008. In addition, the Enterprise made significant progress that could reduce counterparty risk in the future through the use of central clearing to process derivatives trades.

During 2010, the Enterprise operated well within board-approved limits and management effectively corrected occasional breaches of management limits. Though interest rate risk is lower, FHFA still views the

risk to be significant in light of the Enterprise's impaired capital.

The following management practices help mitigate some of our concerns:

- Freddie Mac management appropriately manages adjustments to model results and ensures that executive management understands the adjustments.
- Market risk management maintains an effective independent, analytical view on duration, convexity, and volatility exposures and adjustments arising from model uncertainty.

## Retained Portfolio Management

During 2010, illiquid assets increased in the \$697 billion retained portfolio. Illiquid assets constituted 56 percent of the retained portfolio in 2010, compared with 42 percent in 2009 and 38 percent in 2008 (see Figure 19).

At year-end 2010, 34 percent of the retained portfolio was mortgage loans (multi- and single-family loans), 23 percent was in nonagency securities (private-label MBS, commercial MBS, and mortgage revenue bonds) and 43 percent was in agency MBS. Liquidity of the retained portfolio will likely worsen during 2011 as Freddie Mac continues to purchase 120-plus days delinquent loans out of pools. Management is securitizing these assets, which is expected to increase their liquidity.

Because the illiquid assets depend upon key personnel and legacy systems, reducing these assets would simplify operations. FHFA and Freddie Mac have discussed the need for a plan that balances risk and return and sells illiquid assets in a controlled manner over the next few years.

## Distressed Asset Management

The distressed assets subportfolio grew dramatically from about \$25 billion to \$118 billion in 2010, increasing model, interest rate, and funding risks. Distressed assets are loans with credit problems, gener-

ally loans that are or were delinquent or that have modified terms or conditions.

Distressed assets represent a significant and growing portion of the retained portfolio, which is shrinking from the sale and pay off of other assets. Distressed assets pose unique problems in the measurement and management of interest rate risk. The uncertainty in consumer responses to house prices, government housing policies, state foreclosure laws, and a lack of relevant historical loan data affect the measurement of the duration exposure of distressed assets.

Risks from these distressed assets should be integrated into the overall modeling process, and modeling assumptions should be transparent. Management should watch closely to make sure that if there are changes in the characteristics of distressed assets that they are incorporated into the development of new models.

## Operational Risk Management

**Operational risk is rated critical concerns.** The operating environment remains highly stressed due to legacy technology and the inordinate amount of sub-optimal processes and controls used to manage them. These risks increased during 2010 because of the unprecedented volume of transactions in problem loans and loss mitigation processed through this function. This operational structure inefficiently processes and controls transactions, increases the risk of operational incidents, and causes dependency on personnel who understand the unique features in the proprietary systems. It will take several years to make a number of needed corrections.

During 2010, Freddie Mac addressed or made significant progress in addressing examination findings. In addition, a new technology project, now only in its early stages, is essential to correct issues in processes, controls, and legacy technology.

## Information Technology

Legacy technology produces a fragile, complex, and inflexible infrastructure. Technology challenges include deficiencies in system design and execution, inade-

quate data management, over use of end-user computers, and the temporary risks associated with major changes in organization, development standards, and the system development life cycle.

FHFA recognizes management's accomplishments in meeting early stage deliverables in its information security program and critically important technology project. But the depth and breadth of corrections needed in IT and controls are substantial and many corrections will require several years to complete. Deadlines for full correction are reasonable, and range from 2011 to 2013. The major improvements in IT development and deployment are scheduled for 2011 and 2012.

FHFA issued four critical examination findings which note weaknesses in the technology environment, IT risk management, controls, and budget allocation. Freddie Mac acknowledged FHFA's concerns and is actively engaged to correct the deficiencies. During 2010, management closed four long-standing examination findings pertaining to information security, controls, reports, management, and standards for development and change control.

Risks in information security are high. Legacy technology contributed to weak access controls. Management needs to improve the overall security infrastructure to reduce vulnerabilities.

The data program remains a concern. Leadership changed significantly, and the new management is developing a centralized data dictionary. Freddie Mac's several past attempts were unsuccessful. The centralized dictionary allows a hub data architecture, which improves efficiency when updating or adding system applications.

## Internal Controls

The fragile, complex and inflexible infrastructure negatively affect the management and control of operations processes. The unique processes associated with legacy and proprietary systems increase the dependency on manual processes, preventing or impeding the use of optimum controls in several areas. They also create operational risk by reducing interchangeability among personnel—the Enterprise must rely on a few people

who understand a particular system or process. Issues and events created or contributed to by these conditions include:

- inadequate escalation of the details behind a backlog of transactions in foreclosure alternatives, requiring an out of period adjustment to the loan loss provision;
- inadequate reconciliation of servicer information provided to Mortgage Electronic Registration Systems (MERS). MERS maintains mortgage information for many in the mortgage industry in a central location;
- untimely or inadequate updates for the business resiliency plans;
- changes in the scope of business resiliency testing when resources were allocated to higher priority projects; and
- the system development life cycle program remains a supervisory concern.

Correction has been slow for several reasons: the enormity of the systems issues, numerous changes in personnel, organizational structures, and initiatives to addresses operational deficiencies. Management made progress in correcting deficiencies, but many problems cannot be fully addressed until improvements in information technology are completed.

Significant leadership and senior management changes in finance, operations, and technology resulted in significant reorganizations and other changes across the Enterprise. In late 2010, management announced a major restructuring of operations and technology, which will eliminate several key positions but keep core leadership intact.

The changed priorities and strategies improve operations, but temporarily increase risk. For example, several changes in management over time resulted in multiple iterations of the business resiliency strategy, and the latest plan needs monitoring throughout implementation.

Freddie Mac's system development life cycle program remains a supervisory concern. Management stream-

lined this program, which reduced redundant documentation and required approvals and will improve the timeliness of communication with the business units in project development. Freddie Mac is also making progress in correcting long-standing examination findings to address issues in the system development life cycle process, the use of end-user computers, and model development management.

For the second consecutive year, Freddie Mac evaluated its financial reporting controls in compliance with the requirements in Sarbanes-Oxley section 404. Freddie Mac's review to optimize financial controls resulted in a streamlined process with a 41 percent reduction in the key controls.

Management moved the Sarbanes-Oxley process documentation, self-assessment, issue management, and control testing from the business lines and consolidated them into an independent control function in late 2010. Management expects this change to improve the independence, quality, and consistency of their Sarbanes Oxley reviews.

Freddie Mac continues its work to improve operational efficiency and reduce risk by streamlining manual processes and systems flexibility. Its three-year initiative addresses issues in its core systems, processes, and controls. During 2010, the initiative focused on process redesign and case development.

During 2011, the focus will shift to technology development. As the initiative progresses, management is improving metrics to monitor progress and identify problems as they arise. Also, the correction committee monitors efforts to correct examination findings and the internal audit department's findings. In 2011, the committee will expand its review over the correction of other control issues.

## Operational Risk Oversight

Operational risk oversight effectively identified and reported the Enterprise's most significant operational risks and contributed to the Enterprise's improved controls. The new centralized organizational structure used multiple tools to identify operational risks, including a control self-assessment, operational inci-

dent reporting, and scenario analysis. The reorganization strengthened the independence in operational risk reporting and may improve the timeliness and the number of operational risk issues reported.

***Cost cutting left staffing lean, and when combined with a substantial reorganization of the model development and control units, has increased personnel risk.***

The unit should continue to actively identify and correct operational risks. In early 2010, the single-family portfolio management control self-assessment did not adequately identify its control risks. Once management discovered an unreported foreclosure backlog in the self-assessment, they strengthened the assessment, which included moving the reporting line for operational risk managers into the oversight function.

## **Making Home Affordable Compliance**

Freddie Mac operates the Making Home Affordable Compliance Program for the Treasury Department. The program increases reputation risk for the Enterprise because of its visibility and the potential negative effects on the Enterprise that could arise from a problem in the program.

## **Model Risk Management**

Model risk is a significant concern. In 2010, the level of model risk, the risk that model results are not accurate, stabilized but remained high. Most key models continue to perform adequately. However cost cutting and some additional controls slowed model development, delaying some important updates. The audit model function is strong.

Cost cutting left staffing lean, and when combined with a substantial reorganization of the model development and control units, has increased personnel risk. However, the new organization's design appears sound, and its additional controls should yield a more efficient and effective structure once it is mature.

The models are used to produce key metrics that are critical to loss mitigation, financial reporting, pricing assets, and measurement of market and credit risks. The most important drivers behind these metrics were difficult to project accurately, including mortgage prepayments, default rates, severity rates, and home prices. However, model risk was likely reduced for a key application as new loans with stronger underwriting and eligibility standards were booked.

Key elements of the credit model evaluation include:

- Uncertainty in house price forecasting is high due to the stressed housing market and the unknown effect of government programs. The state-level forecast model is outdated. A new house price model is nearly done and is expected to provide better forecasts. However, since the new model must be used in conjunction with another model that will not be complete until year-end 2011 or later, management is delaying implementation.
- Models for credit pricing are outdated and, despite model calibrations, may not reflect the unique default behavior of recent years. Turnover and hiring constraints contributed to delays in model revisions and prevent release of the new model until 2011 or later.
- The cash flow model used in forecasting loan losses has been in use for 18 months, but resource constraints have prevented a complete independent validation of the model. The validation is scheduled for mid-year 2011.
- Management agreed to address model weaknesses in the underwriting application. Risks are partially offset by the high quality of loans being acquired.



Loss mitigation analytics were significantly improved, though loss mitigation decisions have only begun to improve. Model results are derived from thin data and uncertainty in collateral valuations. Management should continue to develop ways to use model output to better inform decisions in servicer management and asset disposition.

***Management actively responded to market stresses and uncertainties by updating key prepayment models several times during the year. Management also developed a new set of prepayment models that it expects will significantly improve prepayment estimates in 2011.***

A significant part of the market model concerns prepayment speeds. Management actively responded to market stresses and uncertainties by updating key prepayment models several times during the year. Management also developed a new set of prepayment models that it expects will significantly improve prepayment estimates in 2011.

Key elements of model governance and controls evaluation include:

- Management reorganized model functions to address recognized issues in controls and management and to produce a more efficient and effective structure. Enterprise risk management intends to complete the reorganization in stages during 2011.
- The Enterprise is adopting an organization structure to improve model risk management based on a program developed by internal audit and enhanced with best practice standards and other external information.
- Management is cutting costs in the model development and control units to enhance operational efficiency. However, the cuts will likely increase personnel risk, and its long term effect is uncertain. These cuts slowed revisions in key models and reduced the depth of model development personnel.
- The model risk oversight group is overextended due to the high volume of model changes. Management is resolving this by moving some work to a new group, realigning policies to current practices, and more accurately determining which models the oversight group reviews. Management needs to make further changes to fully resolve this issue.
- Internal audit's model department adds significant value to model risk management.



# Report of Examinations of the Federal Home Loan Banks

## Examination Authority and Scope

**S**ection 20 of the Federal Home Loan Bank Act (12 USC 1440) requires an examination of each Federal Home Loan Bank (FHLBank) at least annually. FHFA's Division of FHLBank Regulation is responsible for carrying out on-site examinations and ongoing supervision of the FHLBank System. The FHLBank System includes the Office of Finance and 12 FHLBanks: Boston, New York, Pittsburgh, Atlanta, Cincinnati, Indianapolis, Chicago, Des Moines, Dallas, Topeka, San Francisco, and Seattle.

The Division of FHLBank Regulation's oversight of the operations of the FHLBanks promotes both safe and sound operation and achievement of their housing finance and community investment mission. In 2010, FHFA examined all FHLBanks and the Office of Finance, a joint office of the FHLBanks. Each annual examination averages eight weeks in length. In addition, FHFA examiners visit the FHLBanks between examinations to follow up on examination findings and discuss emerging issues. The agency has designated an examiner-in-charge for each FHLBank and the Office of Finance who communicates regularly with FHLBank management.

FHFA examiners use a risk-based approach to supervision. Risk-based supervision is designed to (1) identify existing and potential risks that could adversely affect a regulated entity; (2) evaluate the overall integrity and effectiveness of each regulated entity's risk manage-

ment systems and controls; and (3) determine compliance with laws and regulations applicable to the regulated entity. Examiners communicate findings, recommendations, and any required corrective actions to the regulated entity's board of directors and management. In addition, examiners obtain a commitment from the board and management to correct significant deficiencies in a timely manner and verify the effectiveness of corrective actions. FHFA examiners also collaborate with FHFA analysts, accountants, economists, and modelers in carrying out the examinations.

The Division of FHLBank Regulation's on-site examination program is supplemented by ongoing off-site monitoring and analysis of the FHLBanks. The division's off-site monitoring program includes reviews of monthly and quarterly financial reports and information submitted to FHFA, as well as financial statements and reports filed with the Securities and Exchange Commission.

The division also monitors debt issuance activities of the Office of Finance and tracks financial market trends. The division reviews FHLBank documents, such as the board of directors' compensation packages for each FHLBank, and analyzes responses to a wide array of periodic and ad hoc information and data requests, including an annual survey of FHLBank collateral and collateral management practices and periodic data on the FHLBanks' holdings of private-label mortgage-backed securities (MBS).

## Governance

Effective corporate governance at the FHLBanks requires engaged, capable, and experienced directors and senior management; a coherent strategy and comprehensive business plan; effective and measureable risk limits and controls; and clearly defined lines of responsibility and accountability. Those attributes exist to varying degrees among the FHLBanks, but the 2010 examinations identified several governance shortcomings.

In 2010, FHFA had a concern about the level of experience and expertise of certain executives and executive turnover at some FHLBanks. While board and manage-

ment oversight of operations generally improved during 2010 at most FHLBanks, there remains room for improvement at some FHLBanks in areas such as succession planning, internal audit, information technology oversight, and program administration. There is also room for improvement in the strategic planning and policy review processes, as well as the FHLBanks' enterprise risk management framework. At a few FHLBanks, FHFA also found one or more regulatory violations.

Although risk management is improving overall, some FHLBanks need to improve risk management practices for collateral reviews, advances to insurance companies, credit and market risk analysis, and liquidity monitoring.

In response to previously identified deficiencies, particularly those related to investment in private-label MBS and deterioration in the credit quality of those portfolios, many FHLBanks revised their policies and practices for investment in such securities and appropriately adjusted their retained earnings targets. Nevertheless, deficiencies in the retained earnings policies and practices persist at several FHLBanks.

In some instances, FHFA also continued to have concerns about administration of the Affordable Housing Program (AHP).

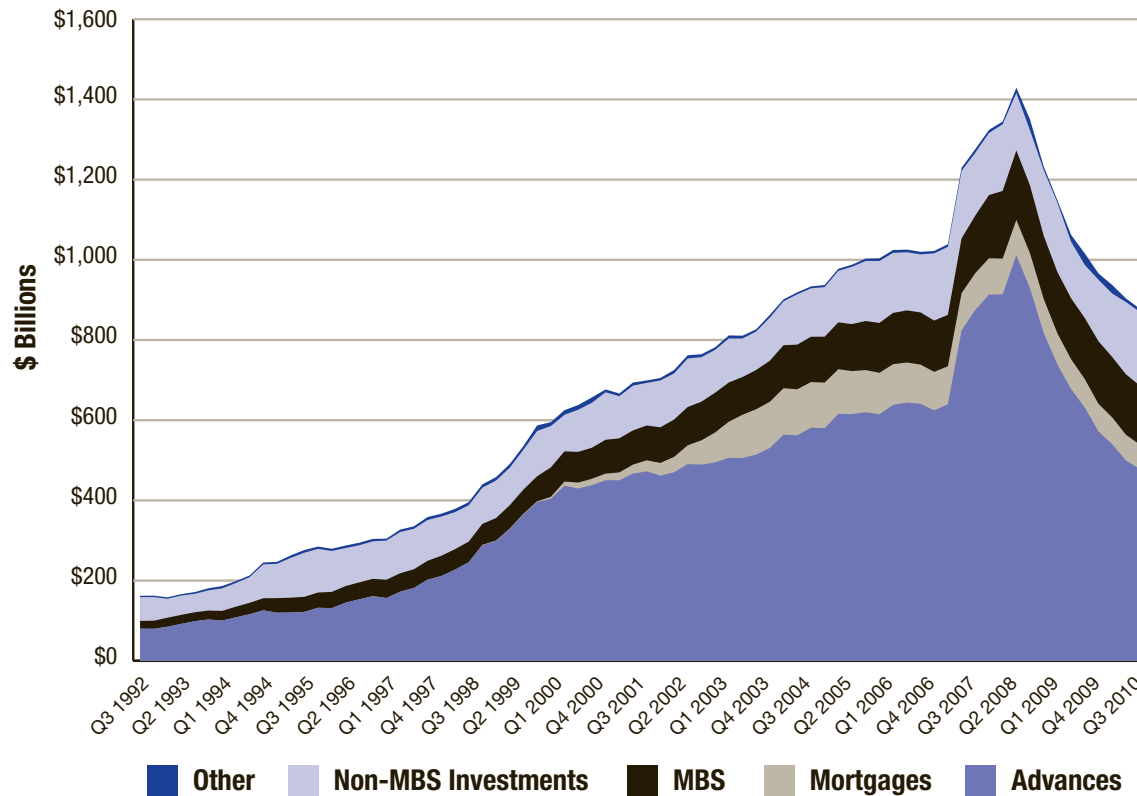
## Financial Condition and Performance

The financial condition and performance of the FHLBanks generally stabilized in 2010, but continued to be negatively affected by their exposure to private-label MBS and declines in advance balances. Net income increased in 2010 compared with 2009, but credit-related impairment charges on the FHLBanks' private-label MBS continued to limit System-wide earnings. All FHLBanks recorded positive annual earnings in 2010, though some FHLBanks recorded losses in individual quarters. At year end, all FHLBanks met the minimum statutory capital requirement of 4 percent of total assets, and all met their risk-based capital requirements.

The FHLBanks ended 2010 with total assets of \$878.3 billion, down from \$1.02 trillion at the end of 2009 (see Figure 20). The decline in loans to members (advances) exceeded the decline in total assets. Advances remained the largest balance sheet item of the FHLBanks, but declined to \$478.6 billion at year-end 2010, down from \$631.2 billion at year-end 2009.

Demand for advances was constrained by the continuation of weak economic conditions in the national economy and by high levels of liquidity at member institutions. However, the weak economic conditions also took a toll on the banking community as a whole—in 2010 there were 157 bank failures—up from 140 in 2009—many of which were FHLBank members.

Figure 20. Portfolio Composition of the Federal Home Loan Banks



Source: Federal Housing Finance Agency

FHLBanks held \$61.2 billion in mortgage loans at the end of 2010, down from \$71.4 billion at the end of 2009. Mortgage loans have been trending downward since the middle of 2004 when mortgage balances were \$115.9 billion. The FHLBanks acquired \$6.5 billion of mortgage loans in 2010; repayments and prepayments were \$16.4 billion.

In 2010, the funding environment for the FHLBanks continued to normalize with spreads relative to LIBOR<sup>1</sup> nearing historical averages. At the same time, the amount of FHLBank consolidated obligations outstanding decreased by \$134 billion during the year due to lower advance demand.

Net income for 2010 was \$2.01 billion, up from \$1.84 billion in 2009. The largest factor in the income increase was a decrease in credit-related other-than-temporary impairment charges on private-label MBS. The return on average assets was 0.21 percent, compared to 0.16 percent in 2009. The net interest spread, which is the difference between the weighted average yield on assets and the weighted average cost of liabilities, increased to 0.49 percent for 2010, up from 0.39 percent in 2009.

<sup>1</sup> LIBOR stands for London Interbank Offered Rate, the rate that international banks charge each other for overnight loans of funds in the London market.

## Effect of Private-Label MBS Holdings

During 2010, holdings of private-label MBS continued to affect the financial condition and performance of the FHLBanks. As of December 31, 2010, the FHLBanks held \$109.3 billion of agency MBS and \$37.6 billion of private-label MBS (carrying values).

The quality of the FHLBanks' private-label MBS continued to deteriorate throughout the year, as evidenced by an increase in the number of bonds downgraded by a Nationally Recognized Statistical Rating Organization. However, at purchase, all private-label MBS owned by the FHLBanks had been rated triple-A.

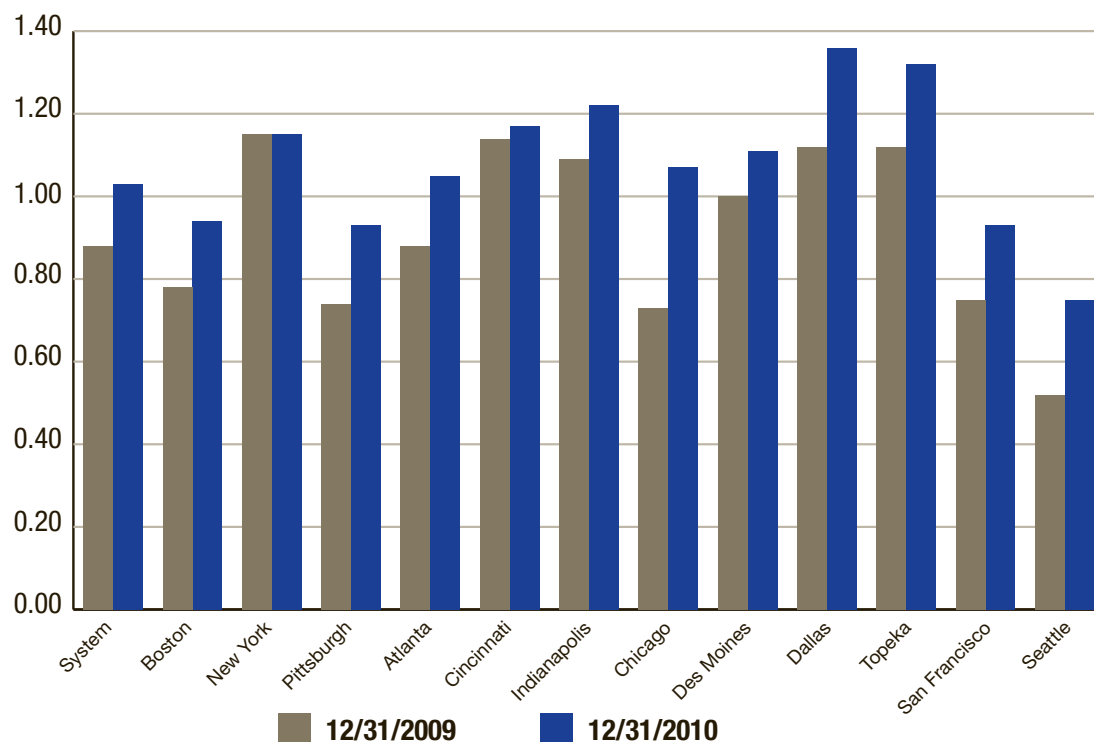
An FHLBank must hold sufficient regulatory capital to meet the greater of either the total capital requirement or risk-based capital requirement. The only exception is the FHLBank of Chicago, which has not yet converted to the capital structure required by the Gramm-Leach-Bliley Act of 1999. The Chicago FHLBank is operating under a cease and desist order that includes

a minimum capital level and a minimum capital-to-assets ratio, and the FHLBank complies with those capital requirements.

The FHLBanks' regulatory capital generally consists of the amounts paid by member institutions for FHLBank capital stock and the retained earnings of the FHLBank. As of December 31, 2010, all 12 FHLBanks exceeded the minimum ratio by having at least 4 percent capital-to-assets.

The FHLBanks' regulatory capital at December 31, 2010, was \$57.3 billion, consisting of \$41.7 billion of capital stock, \$7.5 billion of retained earnings, and \$8.1 billion of other regulatory capital. This was principally mandatorily redeemable capital stock, which arises out of capital stock redemption requests by members or any capital stock held by a nonmember, including the Federal Deposit Insurance Corporation as a receiver for former members. The weighted average regulatory capital to assets ratio for the FHLBank System was 6.52 percent.

Figure 21. Market Value of Equity to Par Value of Capital Stock



Source: Federal Housing Finance Agency

The FHLBanks' market value of equity increased to 103 percent of capital stock at year-end 2010, the highest level since the fourth quarter of 2001 (see Figure 21). The year-end 2009 level was 88 percent. The improvement is attributed to increased estimated prices of private-label MBS and growth of retained earnings.

At the end of 2010, the FHLBanks had 7,850 members—1,095 savings associations, 5,496 commercial banks, 1,030 credit unions, and 229 insurance companies. Approximately 65 percent of members were also FHLBank borrowers.

Figure 22. Summary of Financial Data of the Federal Home Loan Banks

(Dollar amounts in millions)

| <b>Selected Statement of Condition Data at December 31</b>              | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
|---|-------------|-------------|-------------|-------------|-------------|
| Advances  | 478,589     | 631,159     | 928,638     | 875,061     | 640,681     |
| Mortgage loans held for portfolio (net)                                 | 61,191      | 71,437      | 87,361      | 91,610      | 97,976      |
| Investments   | 330,470     | 284,351     | 305,913     | 297,058     | 270,319     |
| Total assets  | 878,109     | 1,015,583   | 1,349,053   | 1,271,800   | 1,015,304   |
| Consolidated obligations (net)  | 800,998     | 934,876     | 1,258,267   | 1,178,916   | 934,214     |
| Total capital stock   | 41,735      | 44,982      | 49,551      | 50,253      | 42,001      |
| Retained earnings   | 7,552       | 6,033       | 2,936       | 3,689       | 3,144       |
| Total capital   | 43,741      | 42,809      | 51,530      | 53,597      | 44,986      |
| <b>Selected Statement of Income Data for the year ended December 31</b> | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Total interest income   | 14,510      | 20,909      | 45,595      | 57,024      | 50,541      |
| Total interest expense  | 9,276       | 15,477      | 40,352      | 52,507      | 46,248      |
| Net interest income   | 5,234       | 5,432       | 5,243       | 4,517       | 4,293       |
| Provision (reversal) for credit losses                                  | 58          | 18          | 11          | 3           | -1          |
| Net interest income after loss provision                                | 5,176       | 5,414       | 5,232       | 4,514       | 4,294       |
| Total other income (loss)   | -1,436      | -1,786      | -2,350      | 127         | 3           |
| Total other expense   | 932         | 943         | 1,076       | 792         | 743         |
| Affordable Housing Program  | 229         | 258         | 188         | 319         | 294         |
| Resolution Funding Corporation (REFCORP)                                | 498         | 572         | 412         | 704         | 647         |
| Total assessments   | 727         | 830         | 600         | 1,022       | 942         |
| Net income  | 2,081       | 1,855       | 1,206       | 2,827       | 2,612       |
| <b>Selected Other Data for the year ended December 31</b>               | <b>2010</b> | <b>2009</b> | <b>2008</b> | <b>2007</b> | <b>2006</b> |
| Cash and stock dividends  | 587         | 641         | 1,975       | 2,282       | 2,069       |
| Weighted average dividend rate  | 1.35%       | 1.21%       | 3.80%       | 5.22%       | 4.40%       |
| Return on average equity  | 4.82%       | 3.95%       | 2.17%       | 6.01%       | 5.80%       |
| Return on average assets  | 0.22%       | 0.16%       | 0.09%       | 0.26%       | 0.26%       |

Source: FHLBanks Office of Finance



## Credit Risk Management

Credit risk is moderately high and increasing, and credit risk management is generally adequate but needs improvement. In 2010, financial and mortgage market instability continued to affect the value of certain assets, particularly private-label MBS.

Difficulties with foreclosure proceedings have contributed to the uncertainty surrounding the potential level of further credit losses on private-label MBS. The collateral commonly pledged by members—mortgage loans and mortgage-backed assets—continue to be difficult to value. In response, FHLBanks have improved their collateral management systems and adjusted collateral “haircuts” to mitigate heightened credit risk on advances. (In financial terms, a haircut is a discount of a percentage of the par value of a financial asset used as collateral.)

FHFA’s 2010 examinations of the FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, San Francisco, and Seattle concluded that those institutions have high levels of credit risk. The remaining six FHLBanks have moderate levels of credit risk. Examinations also concluded that the FHLBank of Seattle has weak credit risk management—the remaining 11 FHLBanks have adequate credit risk management.

The examinations showed that some FHLBanks need more frequent and timely assessments of large members, and some FHLBanks need to implement collateral

controls that either FHFA or the previous regulator, the former Federal Housing Finance Board (FHFB), required in previous advisory bulletins to the FHLBanks.

Advances generally carry low credit risk, but advance credit risk is increasing because of financial stress at FHLBank member institutions. To obtain an advance, members pledge eligible collateral that is sufficient, in the judgment of the FHLBank, to fully secure the advance. The FHLBanks must take a lien on pledged collateral.

In addition, the FHLBanks may either (1) require the member to list specific assets as collateral; or (2) take delivery of the collateral. FHLBanks typically adjust collateral haircuts depending on the quality of the pledged assets and the financial condition of a member. Although examinations identified shortcomings in collateral management practices at several FHLBanks, no FHLBank has ever incurred a loss on an advance to a member institution.

In 2010, the FHLBanks continued to experience

- deterioration in the credit quality of the FHLBanks’ private-label MBS, as measured by adverse rating actions;
- increases in serious delinquency of the collateral backing the private-label MBS; and
- other-than-temporary impairment charges.

## A Review of the Housing GSEs’ Methods and Assumptions for Assessing Other-Than-Temporary Impairments for Private-Label MBS

As of December 31, 2010, the FHLBanks, Fannie Mae, and Freddie Mac (known as the housing GSEs, or government-sponsored enterprises) had collectively recognized \$29 billion in credit other-than-temporary impairment on portfolios of private-label MBS totaling \$238 billion in amortized cost.

In 2010, FHFA reviewed the differences between the housing GSEs’ other-than-temporary impairment estimates on credit, with particular attention being paid to the private-label MBS commonly held by two or more of the entities. FHFA treated the 12 FHLBanks as one entity since the FHLBanks estimated their other-than-temporary impairment charges using a common platform.

The review revealed that differing other-than-temporary impairment estimates on credit reflected (1) the different composition of the housing GSEs’ portfolios; and (2) the significant judgment and inherent uncertainty involved in making long-term projections of private-label MBS performance.

FHFA recommended the housing GSEs make their processes more transparent and consistent across entities where appropriate, and that they continue due diligence around critical estimates as private-label MBS holdings move through the credit cycle.

In addition, the FHLBanks of Boston, Pittsburgh, Atlanta, Chicago, Indianapolis, San Francisco, and Seattle have sufficient holdings of downgraded or impaired private-label MBS to warrant heightened supervisory attention.

The FHLBanks had mortgage loan holdings of \$61.2 billion at the end of 2010, down from \$71.4 billion at the end of 2009. These portfolios do not present significant credit risk, but the risks are increasing. The loans are fixed-rate amortizing loans, well-seasoned, written to traditional underwriting standards to borrowers with high credit scores and relatively low loan-to-value ratios. Depending on the FHLBank's mortgage program, the loans are credit enhanced either by the member who sold the loan to the FHLBank or by supplemental mortgage insurance.

At the end of 2010, only 0.88 percent of these portfolios were on nonaccrual status, although that figure is up from 0.53 percent at the end of 2009. Foreclosures outstanding at the end of the fourth quarter of 2010 were \$737 million, up 36 percent from the fourth quarter of 2009, and net charge-offs were \$632,000, compared to \$345,000 a year ago.

## Market Risk Management

Mortgage assets continue to be the greatest source of market risk for the FHLBanks. Mortgage assets are typically longer-dated instruments than most other FHLBank assets, have less predictable cash flows, and in the case of private-label MBS, have experienced the greatest declines in market value.

At the end of 2010, FHLBanks held, in book value, whole loan mortgages equal to \$61.2 billion and mortgage securities equal to \$146.9 billion (down from \$71.4 billion and \$152 billion at the end of 2009). The following FHLBanks had the largest whole loan portfolios at the end of 2010, both in dollar volume and as a percentage of assets:

- Chicago (\$18.3 billion, 21.8 percent of assets)
- Cincinnati (\$7.8 billion, 10.9 percent)
- Des Moines (\$7.4 billion, 13.4 percent)
- Indianapolis (\$6.7 billion, 14.9 percent)

- Pittsburgh (\$4.5 billion, 8.4 percent)
- Topeka (\$4.2 billion, 10.8 percent)

Only the Topeka FHLBank increased its holdings during 2010, and it did so by about 25.2 percent.

Although the FHLBanks with declining mortgage portfolios should ultimately have an easier time managing market risk, they face potential asset and liability mismatches during the transition to a more traditional FHLBank balance sheet that is advance-focused. Some FHLBanks with significant mortgage holdings hedge the market risk by extensive use of callable bonds, often with American call options, to fund those assets.

Other FHLBanks, Chicago in particular, use a more complicated hedging strategy that involves interest-rate swaps, swaptions (options to enter into interest rate swaps), and options. FHLBanks holding MBS with floating rates with embedded rate caps tend to use interest rate caps (a type of derivative) to hedge these positions.

The System's market value of equity, which is the estimated market value of the System's assets less the estimated market value of its liabilities, had fallen from \$49.1 billion at the end of 2007 to \$30.5 billion, or 54 percent of par stock, at the end of 2008. It had recovered to \$46.8 billion, or 88 percent of par stock, by the end of 2009.

During 2010, the market value of equity for the System recovered still further, reaching \$50.4 billion, or 103 percent of par stock by the end of the year. The extraordinary recovery in the market value of equity-to-par stock ratio resulted from several factors:

- (1) improved values of the System's mortgage-related assets because mortgage rates and spreads (mortgage rates less swap rates) were much lower at the end of 2010 relative to the end of 2008;
- (2) much slower than expected mortgage prepayments;
- (3) reduced credit spreads (rising prices) on private-label MBS; and
- (4) substantially increased retained earnings.

Figure 23. FHLBanks with Duration of Equity > 1.06

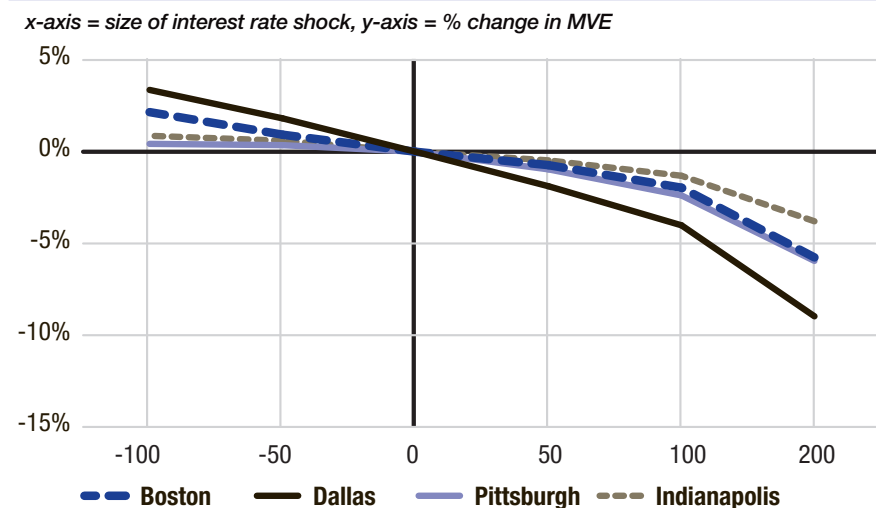


Figure 24. FHLBanks with  $-0.18 < \text{Duration of Equity} < 1.05$

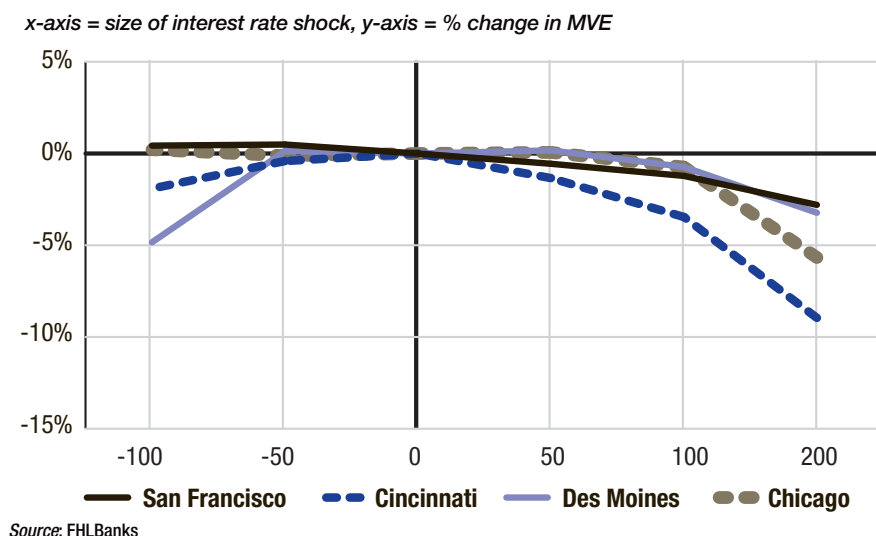
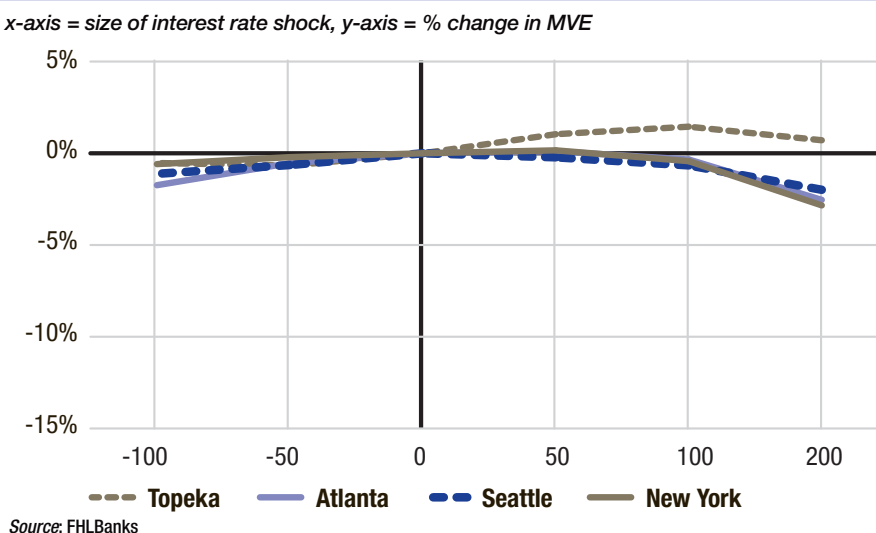


Figure 25. FHLBanks with Duration of Equity < -0.35



Retained earnings, for example, increased from \$6.1 billion at the end of 2009 to \$7.5 billion at the end of 2010.

The market value of equity relative-to-par stock ratio is an indicator of the FHLBanks' abilities to redeem stock at par. Figures 23 through 25 show the sensitivity of the FHLBanks' market value of equity to changes in market rates based on the FHLBanks' model results.

For rate increases at the end of 2010, the assumption is that all market rates increase by the same amount (50, 100, or 200 basis points). For rate decreases, because of the extremely low interest rates on instruments with short maturities, the assumption is that all rates fall by the same amount (50 or 100 basis points) but are restricted from falling below zero.

These graphs divide the FHLBanks into three groups based on their effective duration of equity. Duration of equity measures the sensitivity of the market value of a bank's equity to changes in market rates. It is calculated as the estimated change in market value of equity for a hypothetical 50 basis point decrease in rates less the estimated change in market value of equity for a hypothetical 50 basis point increase in rates.

An FHLBank with positive duration of equity will typically lose market value for 50 basis point rate increases and gain market value for 50 basis point rate decreases, though other factors such as mortgage prepayments can cause this not to be the case. The

sensitivity measures used here include adjusted sensitivities for Atlanta, Boston, Chicago, Pittsburgh, San Francisco, and Seattle. For these FHLBanks, the adjustment is to offset the effects of heavily discounted private-label MBS on their risk metrics.

Significant holdings of heavily discounted private-label MBS can distort risk metrics by causing models to overstate gains in falling rate environments and losses in rising rate scenarios. By these measures, the duration of equity for the FHLBank System was 0.51 years at the end of 2010.

As figures 23 through 25 show, none of the FHLBanks estimate significant losses in market value of equity for rate movements of plus or minus 50 basis points. Only Dallas and Cincinnati estimate losses in market value of equity of more than 1 percent for a 50 basis point rate increase, and no FHLBank estimates losses in market value of equity of more than 1 percent for a 50 basis point rate decrease.

Dallas and Cincinnati estimate market value of equity losses of approximately 4 percent for a 100 basis point rate increase, while Des Moines makes a similar estimate for a 100 basis point rate decrease. In general, the FHLBanks estimate less market value of equity sensitivity to movements in interest rates than they have in the recent past. Because of their increasing market value of equity and retained earnings, they seem to be in a better position to absorb unexpected market value losses than in the recent past.

However, uncertainty about private-label MBS adjustments related to market risk metrics, prepayment speeds, and the effects of extremely low interest rates at short maturities all increase model risk. Consequently, FHFA has less confidence than usual in these estimates.

## Operational Risk Management

Operational risk is the risk of losses due to failures of internal processes or systems, fraud, human error, or external events. High levels of operational risk may lead to monetary losses, damage to an FHLBank's reputation, or significant reporting errors to members, investors, and FHFA. In 2010, the FHLBanks did not suffer operational failures that caused substantial losses.

The FHLBanks engage in financial transactions that require financial models, technological resource systems, ledger accounting systems, and other processes that inherently expose them to operational risks. The FHLBanks' use of manual processes and user-developed applications, such as spreadsheets, magnify these risks.

Over the past several years, examiners have frequently criticized the number of user-developed applications at the FHLBanks, their critical role in management information systems, and the generally slow pace at some FHLBanks in replacing them with better information technology solutions. Although the FHLBanks have made some progress in addressing these issues, FHFA examiners' concerns persist.

To mitigate operational risks, the FHLBanks have adopted effective internal controls for detecting and preventing operational concerns. All FHLBanks have sufficient business continuity plans and back-up locations, though, in some cases, the distances between the FHLBank facility and its back-up location may be inadequate for certain catastrophic events. FHFA examiners regularly evaluate these disaster recovery plans and business impact analyses.

Affordable housing and community investment activities present the potential for operational risk that could affect an FHLBank's reputation. The FHLBanks have made improvements in this area, but FHFA examiners continue to find and cite concerns about inadequate management information systems, slow project completions, and deficient project monitoring.

# FHLBank Examination Conclusions

## District 1: The Federal Home Loan Bank of Boston

### Overview

**T**he FHLBank of Boston is the sixth largest FHLBank with total assets of \$58.7 billion. The overall condition of the FHLBank presents supervisory concerns.

The key factors affecting Boston's overall condition include significant weakness in its private-label MBS portfolio, which exposes the FHLBank to possible additional impairment charges, and the low level of retained earnings, which are insufficient to support the risk inherent in the FHLBank and to absorb unexpected losses. In addition, advances continued to decline in 2010 and now account for less than 50 percent of total assets, and the FHLBank has assumed additional market risk in its growing investment portfolio.

### Condition and Performance

The FHLBank of Boston's financial condition and performance are weak. Although capital exceeded 7 percent of assets, retained earnings still need to increase. Significant factors in the FHLBank's financial condition and performance include its exposure to potential additional credit-related losses on its private-label MBS portfolio, its inadequate retained earnings, the uncertainty of the future level of advance business from the FHLBank's largest members, and the FHLBank's growing investment portfolio, which raises the FHLBank's market risk, reputation risk, and unsecured credit risk exposure.

As of December 31, 2010, Boston's private-label MBS portfolio had declined but accounted for 3 percent of its total assets and stood at \$3 billion in par value and \$1.9 billion in fair value. Approximately 77 percent of the FHLBank's private-label MBS portfolio has been downgraded below investment grade; 11 percent of its portfolio has been downgraded to default. To date, the FHLBank has recorded \$561 million in credit-related impairment charges and has incurred realized principal losses of \$33 million—more than any other FHLBank.

Despite growing by \$107 million in 2010, Boston's retained earnings are the second lowest in the System, in both dollar terms and as a percent of total assets, and an insufficient buffer against potential losses. Credit losses on the FHLBank's private-label MBS portfolio, though showing signs of decelerating in recent quarters, continue to dampen the level of current earnings, and the FHLBank has exposure to additional possible losses in the future.

As a result, the FHLBank has restricted dividend payouts and excess stock repurchases since December 2008. (Excess stock is stock that does not support membership or activity requirements.) The FHLBank declared a dividend based on income for the fourth quarter of 2010, but it may take an extended period of time before the FHLBank is able to rebuild its retained earnings and fully return to normal operations.

Advances continued to decline in 2010, falling 25 percent year-over-year, and are now 57 percent below the record levels reached in October 2008. Boston is now one of five FHLBanks where advances account for less than 50 percent of total assets. The decline in advances would not be a serious challenge in itself, but it means the absolute level of earnings at the FHLBank may be reduced at a time when the FHLBank needs to rebuild its retained earnings.

Finally, the FHLBank holds significant excess capital and has leveraged that capital into investments that have increased the FHLBank's market risk exposure and reputation risk.

### Risk Management

The weak condition of the FHLBank resulted from over investing in high-risk private-label MBS assets while failing to conserve retained earnings. Though a number of senior managers are new to the FHLBank, returning the FHLBank to a safe sound condition will take some years and continuing effort on the part of the board and management. Because of the risks inherent in the FHLBank's balance sheet and the insufficient



level of retained earnings cushion and support, market and operational risks represent even higher concern.

The board and management have assumed additional market risk by embarking on a revenue-generating strategy under which the FHLBank short funds non-core-mission agency debentures to take advantage of the shape and level of the yield. Management increased the balance sheet by \$4.7 billion at the end of the third quarter by purchasing agency assets and funding them with debt maturing approximately one year shorter than these assets.

In an increasing rate environment, this strategy increases risk of a reduced market value of equity at a time when the FHLBank is overly exposed to credit risk. In a weak institution, using an increased risk strategy is questionable, particularly when the use of this strategy has not been subject to rigorous risk management.

The FHLBank's level of member credit risk is increasing, primarily because of continuing weaknesses in economic conditions, the residential real estate market, and the commercial real estate environment. Risk management of the advance portfolio improved substantially as a result of the correction of prior examination findings. However, in 2010 FHFA again repeated two criticisms of secured credit—the FHLBank needs to improve collateral review processes and third-party servicer and custodian credit analyses. In addition, FHFA identified weaknesses in risk management for standby bond purchase agreements in the areas of policy, board reporting, and documentation.

Corporate governance has improved but regulatory compliance is not adequate. FHFA identified several violations of membership regulations. Management's noncompliance and apparent lack of familiarity with the membership regulatory requirements reflects negatively on governance.

### Examination Assessment

|                             | Level of Risk   | Quality of Management |
|-----------------------------|-----------------|-----------------------|
| <b>Market Risk</b>          | <b>Moderate</b> | <b>Weak</b>           |
| <b>Credit Risk</b>          | <b>High</b>     | <b>Adequate</b>       |
| <b>Operational Risk</b>     | <b>Moderate</b> | <b>Weak</b>           |
| <b>Corporate Governance</b> |                 | <b>Weak</b>           |

### Affordable Housing and Community Investment Programs

As a result of the FHLBank's continued earnings challenges, the FHLBank's board of directors approved the acceleration of \$5 million in Affordable Housing Program contributions from future years. Coupled with \$1.8 million in returned and recaptured funds, the FHLBank funded both a competitive scoring round and disbursements to households participating in the AHP set-aside program.

The FHLBank's community investment cash advances offerings included community investment program, urban development program, and rural development program advances, which are all under the FHLBank's umbrella Community Development Advance program. In addition, the FHLBank made economic stimulus cash advances, a program that provides discounted financing to projects focused on economic growth and recovery, and made cash advances through the New England Fund, which serves the FHLBank's broader housing financing program.

Stalled and troubled projects in the FHLBank's AHP portfolio remain at manageable levels. The FHLBank uses a rating system to capture the level of project risk. The board of directors periodically receives a report on all projects at risk of default or which have significant regulatory noncompliance issues.

During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included revising the household sampling methodology and refreshing the analysis of administrative cost allocation for community investment program advances. Management committed to addressing these matters within reasonable timeframes.

## District 2: The Federal Home Loan Bank of New York

### Overview

The FHLBank of New York is the third largest FHLBank with total assets of \$100.2 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting New York's overall condition include its strong advance franchise, stable earnings, and low-risk balance sheet. New York has outperformed the other FHLBanks since the peak of the liquidity crisis by focusing on its core advance business and maintaining strong capital levels.

### Condition and Performance

The FHLBank of New York's financial condition and performance are strong. Significant factors affecting the FHLBank's financial condition and performance include high profitability, strong capital levels, and a low-risk balance sheet relative to other FHLBanks. New York is one of only two FHLBanks that has increased its outstanding advances since the start of the liquidity crisis in mid-2007.

Return on assets in 2010 was 25 basis points, which was the second highest in the System and exceeded the System average of 21 basis points. The FHLBank has benefited from wide spreads on advances issued near the peak of the liquidity crisis and from a lack of large, price-sensitive borrowers, which have hurt profitability at other FHLBanks. New York is also the only FHLBank to increase advances as a percent of total assets since aggregate advances peaked in the third quarter of 2008.

New York has a small private-label MBS portfolio, which stood at \$945 million in par value and \$832 million in fair value as of year-end 2010, accounting for less than 1 percent of total assets.

### Risk Management

The FHLBank of New York has one of the lowest risk profiles in the System. The FHLBank's consistent history of adequate corporate governance has enabled it to perform well throughout the current economic crisis. FHFA has concerns about the governance of credit risk,

but these concerns have lessened over time in light of the FHLBank's efforts to improve in this area.

The FHLBank's insurance company advances equal 22 percent of total advances as of December 31, 2010, compared to 10 percent for the System. Insurance companies are considered higher-risk borrowers than traditional insured depositories because there are no legal precedents for handling of collateral in the event of failure. The FHLBank's strategy to minimize this risk is to allow only life insurance companies as members and accept only securities as collateral from them. The FHLBank's third-party custodian holds the securities. The FHLBank further manages the risk by requiring that life insurance companies have strong financial strength ratings to be eligible for membership.

Management addressed most of the credit risk weaknesses identified in the 2009 examination. However, it needs to further improve validation of credit models and collateral haircuts (see page 52 for more on haircuts). FHFA also identified two instances where management made exceptions to standard collateral field review procedures without sufficient documentation and reporting to the relevant management committee.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Low           | Adequate              |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

### Affordable Housing and Community Investment Programs

The FHLBank held two competitive AHP funding rounds and awarded \$63.8 million. The FHLBank's community investment cash advance offerings included community investment program, urban development program, and rural development program advances.

Stalled and troubled projects in the FHLBank's AHP portfolio remain at manageable levels. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included replacing the antiquated management information system, increasing attention to timely project completion, increasing monitoring of owner-occupied rehabilitation projects, and enhancing reporting to the board of directors. Management committed to addressing these matters within reasonable timeframes.

## District 3: The Federal Home Loan Bank of Pittsburgh

### Overview

The FHLBank of Pittsburgh is the eighth largest FHLBank with total assets of \$53.4 billion. The overall condition of the FHLBank presents supervisory concerns. The key factors affecting Pittsburgh's overall condition include continued weakness in its private-label MBS portfolio and related credit risk position and the resulting effect upon financial condition. In addition, retained earnings are inadequate, advance volumes are declining, and corporate governance remains a supervisory concern due to the short tenure of management within the organization and the required board attention to oversee corrective actions.

### Condition and Performance

The FHLBank of Pittsburgh's financial condition and performance are weak. Significant factors in the FHLBank's financial condition and performance include its exposure to potential additional credit-related losses on its private-label MBS portfolio, its inadequate retained earnings, and the uncertain earnings prospects the FHLBank faces in the near term.

As of December 31, 2010, Pittsburgh's private-label MBS portfolio accounted for 8 percent of its total assets and stood at \$5.1 billion in par value and \$4.4 billion in fair value. Approximately, 78 percent of the FHLBank's private-label MBS portfolio has been downgraded, including 57 percent of its portfolio that has been downgraded below investment grade. To date, the FHLBank has recorded \$397 million in credit-related impairment charges and has incurred realized principal losses of \$5 million on its private-label MBS holdings.

Pittsburgh's retained earnings remain low relative to other FHLBanks in the System and are insufficient given the risks facing the FHLBank. Credit losses on the FHLBank's private-label MBS portfolio limited net income to \$8 million in 2010—the lowest earnings in the System. Pittsburgh suspended dividend payments and excess stock repurchases in the fourth quarter of

2008. FHLBank management partially lifted the moratorium on excess stock repurchases in the third quarter of 2010, however dividends remain restricted.

The sharp decline in the FHLBank's earning assets has depressed its core earnings and will make it more challenging for the FHLBank to rebuild its capital base. Since peaking in January 2008, advances have fallen 62 percent and are now at the lowest level since August 2003.

Declines in advances to the FHLBank's 10 largest borrowers accounted for more than 80 percent of the decrease since 2008, and advances to smaller borrowers have also decreased substantially in the last two years. At year-end 2010, Pittsburgh had the second highest member concentration in the System, with its top 10 borrowers accounting for approximately 75 percent of all outstanding advances, including one member that accounts for approximately 35 percent of total advances.

### Risk Management

The overall risk profile of the FHLBank of Pittsburgh remains high despite the FHLBank's substantial efforts to address identified weaknesses and improve risk management practices. The FHLBank has adopted a new risk philosophy that simplifies the business model and reduces credit risk. However, the FHLBank has experienced significant management turnover and added new management during the transition. While this may create short-term uncertainty, the management changes and additions may prove beneficial to the FHLBank in the long-run. The short tenure of several managers within the organization, the required board attention to oversee corrective actions, the weaknesses caused by the private-label MBS portfolio, and lower advance volumes all mean risk management remains a supervisory concern for FHFA.

The FHLBank of Pittsburgh's performance to date aligns more closely with its long-term plan's pessimistic scenario, which is characterized by ongoing recessionary trends on a sustained basis over the plan's

three-year scope. The FHLBank's return to a sound condition will take considerable time in the best of circumstances, and any new issues could be problematic. Such an environment requires the board and management to incorporate all options in planning the strategic direction of the FHLBank of Pittsburgh to reach a long-term solution in the best interests of its membership.

The FHLBank of Pittsburgh's level of credit risk continues to be high, although the quality of credit risk management has improved since the last full-scope examination and is now minimally adequate. The FHLBank of Pittsburgh needs to address concerns about developing policies and procedures in alignment with the risk appetite recently adopted by the board. The FHLBank also needs to enhance policies and procedures in member credit analysis, the credit scoring system, the on-site collateral review process, adherence to advisory bulletins regarding subprime and nontraditional lending, calculation of member maximum borrowing capacity, and collateral control.

#### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | High          | Adequate              |
| Credit Risk          | High          | Adequate              |
| Operational Risk     | Moderate      | Weak                  |
| Corporate Governance |               | Weak                  |

#### Affordable Housing and Community Investment Programs

Recent economic conditions and the FHLBank's financial challenges have stressed the Pittsburgh FHLBank's AHP and community investment programs. The FHLBank decreased the number of AHP competitive funding rounds from two to one due to a significant decline in funds available for AHP as a result the FHLBank's earnings challenges in 2009.

The FHLBank's board of directors approved the acceleration \$948,000 of AHP contributions from future years, coupled with returned and recaptured funds, to fund a \$3 million competitive scoring round. Due to the funding constraints, the FHLBank suspended its AHP set-aside programs in both 2009 and 2010.

The FHLBank's community investment cash advances offerings included the FHLBank's community lending program for member financial institutions to fund community and economic development projects that create housing, improve business districts and strengthen neighborhoods. The FHLBank also offers a program called "Banking on Business" designed to assist eligible small businesses with start-up and expansion.

Stalled and troubled projects in the FHLBank's AHP portfolio remain at manageable levels. Management uses a tool known as the AHP Problem Project Report to manage slow and troubled projects and report to the board of directors on troubled projects. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included refining project extension parameters and increasing monitoring for owner-occupied rehabilitation projects. Management committed to addressing these matters within reasonable timeframes.



## District 4: The Federal Home Loan Bank of Atlanta

### Overview

**T**he FHLBank of Atlanta is the second largest FHLBank with total assets of \$131.8 billion. The overall condition of the FHLBank presents a supervisory concern, principally in one area—private-label MBS and the potential effects on earnings. Lesser concerns include credit and prepayment model risks amid uncertain market conditions, as well as risk associated with major changes in the FHLBank’s information systems.

### Condition and Performance

The FHLBank of Atlanta’s financial condition and performance are fair. Significant factors in the FHLBank’s financial condition and performance include credit losses on private-label MBS, declining balances of advances, and earnings volatility.

As of December 31, 2010, the FHLBank’s private-label MBS holdings accounted for 7 percent of assets, with a par value of \$9.9 billion and a fair value of \$8.8 billion. This portfolio has presented issues at the FHLBank since 2008, producing a total of \$467 million in credit charges since that time, including \$143 million of charges in 2010. Though all securities in the portfolio were purchased with triple-A ratings, only 31 percent had this rating at the end of 2010, and 48 percent were rated below investment grade.

Advances have been in a steep decline since the end of 2008—balances declined 31 percent in 2009 and 22 percent in 2010. The year-end balance of \$89.3 billion is a seven-year low. Thirty percent of advances are to one member and more than half to just three.

Mark-to-market items can be large and volatile, resulting in quarterly volatility in earnings. Volatility in earnings arises because the FHLBank generally strives to convert both assets and liabilities to short-term benchmarks, such as three-month LIBOR,<sup>2</sup> and accounting rules require some transactions to be marked to mar-

ket. Though mark-to-market variations affect period income, they tend to be transitory in nature and often reverse or otherwise revert to zero over time.

Credit risk related to the private-label MBS portfolio adds uncertainty, because the probability, timing, and magnitude of potential additional credit losses are unclear. Losses could be substantial, and the drivers of such losses are outside the FHLBank’s ability to control or hedge.

### Risk Management

The FHLBank of Atlanta has responded to prior examination findings and continued to improve processes, such as risk modeling, in the credit and market risk areas. Market risk management has improved, but the modeling group has been delayed in developing more comprehensive practices to adjust prepayment speeds for mortgage-related assets because it has instead focused resources on risk modeling of private-label MBS. The FHLBank of Atlanta needs to assess staffing needs in both financial risk modeling and the Treasury group.

Credit risk management concerns still exist but are not as substantive as in prior examinations. The FHLBank of Atlanta needs to improve its collateral on-site reviews of members. The FHLBank reviews underwriting practices and policies, but its credit reviews do not form an overall opinion on the member’s underwriting adequacy. Similarly, the FHLBank of Atlanta reviews the member’s quality control process for single-family mortgages but does not formally assess the adequacy of the member’s quality control function.

Finally, the FHLBank needs to refine its definition of subprime loans and list common mitigating factors when determining whether a loan should not be considered subprime. This determination is relevant with regard to haircuts applied to the collateral pledged to the FHLBank of Atlanta. (For more information on haircuts, see page 52.)

<sup>2</sup> See note on page 49 for a definition of LIBOR.

## Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | High          | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

## Affordable Housing and Community Investment Programs

The FHLBank held one competitive AHP funding round and awarded \$42.8 million. The FHLBank's community investment cash advance offerings included community investment program and economic development program advances for member financial institutions to provide long-term funding for affordable housing and economic development projects.

In recent years, the FHLBank has made significant changes and strengthened administration of its AHP. Incomplete projects are now at more manageable levels. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which include increasing monitoring of owner-occupied rehabilitation projects, additional analysis in making settlement determinations and enhancing reporting to the board of directors. Management is committed to addressing these matters within reasonable timeframes.

## District 5: The Federal Home Loan Bank of Cincinnati

### Overview

The FHLBank of Cincinnati is the fifth largest FHLBank with total assets of \$71.6 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Cincinnati's overall condition include relatively strong financial performance, sound market risk management, and an adequate risk-adjusted capital position. Principal concerns affecting the FHLBank's condition include regulatory compliance management, advances and collateral risk management, and declining mission-related assets. Other factors include weaknesses in model validation and administration of the Affordable Housing Program.

### Condition and Performance

The FHLBank of Cincinnati's financial condition and performance are adequate. Significant factors in the FHLBank's financial condition and performance include minimal exposure to private-label MBS and consistent profitability. However, weak demand for advances and compression of net spreads may put pressure on profitability going forward. Additionally, Cincinnati holds a significant amount of excess stock and a large portfolio of nonmission assets.

As of December 31, 2010, Cincinnati held \$30.2 billion of advances, down 16 percent from year-end 2009. While the decline was much less severe in 2010 than the previous year, advances accounted for only 42 percent of total assets at December 31, 2010, among the lowest ratios in the System.

The near-term outlook for advance demand is weak. Inactive members held \$5.8 billion of advances, or 20 percent of total outstanding advances, in the district as of December 31, 2010. All of these advances will run off over the next few years. In addition, economic conditions affect demand for advances in general, so advance balances will likely face continued pressure.

Cincinnati remained profitable in 2010, but earnings trended downward. Net interest income and net income both declined from the first quarter of 2009 to

the third quarter of 2010. Similarly, net interest spread declined from the second quarter of 2009 to the third quarter of 2010.

These profitability measures improved in the fourth quarter of 2010 because the FHLBank benefitted from its ability to call bonds throughout the year and replace them with lower-cost debt as interest rates remained low. Despite this rebound in the fourth quarter, the FHLBank generated net interest spread of only 30 basis points in 2010, significantly less than the System average of 49 basis points.

Although the Cincinnati FHLBank faces challenges in the future, it has the advantage of minimal exposure to private-label MBS. Cincinnati has taken no impairment charges on its small private-label MBS portfolio, which stood at \$88 million in par value at year-end 2010. This has allowed the FHLBank to remain profitable and build an adequate risk-adjusted capital position, even as it continues to pay dividends.

### Risk Management

The overall risk profile of the FHLBank of Cincinnati is moderate and the overall management and board philosophy is conservative. FHLBank management corrected a substantial number of supervisory concerns noted in prior examinations, which reduced the number of matters FHFA cited in 2010 as requiring board attention.

FHFA's current principal supervisory concerns are governance and regulatory compliance, credit and collateral

### What Are Mission-Related Assets?

FHFA defines core mission-related assets as:

- advances
- mortgage loans acquired from members
- standby letters of credit
- intermediary derivative contracts with members
- certain targeted debt and equity investments

All other investments are considered nonmission-related assets.

al risk management, liquidity monitoring, and model validation. The FHLBank of Cincinnati lacks an effective bank-wide compliance program, which has led to regulatory violations and instances of less than full adherence to advisory bulletin guidance. For example, examiners identified violations of membership requirements in the approval of nondepository institutions as members, and the FHLBank of Cincinnati did not conform fully to FHFA guidance for credit risk model validation.

Credit and collateral risk concerns include delayed completion of collateral verifications and collateral haircut adjustments (see page 52 for more on haircuts) and inadequate prepledging and ongoing analyses for securities collateral. The board and the enterprise risk management function of the FHLBank need to improve the oversight of liquidity. The board's risk committee does not regularly receive or review liquidity monitoring reports, and the enterprise risk management function has not fully formulated and implemented a monitoring and reporting process for funding and liquidity risks.

The FHLBank's enterprise risk management function is developing a process to monitor all risks, including those related to credit and collateral and liquidity monitoring. The board and management recognize the need to achieve an effective enterprise risk management system and are working toward this goal.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Strong                |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

### Affordable Housing and Community Investment Programs

The FHLBank held two competitive AHP funding rounds and awarded \$28.6 million. The FHLBank's

### What is Enterprise Risk Management?

The enterprise risk management function is responsible for assessing and monitoring risk on an enterprise-wide basis independently of the institution's business line or risk assumption processes.

A sound enterprise risk management function identifies, measures, monitors, and reports on all aspects of an institution's risks.

The institution's board of directors should rely heavily on the independent perspective provided by the enterprise risk management function. By contrast, the institution's business line officers are responsible for ownership of the risk positions taken and for the results and ramifications.

community investment cash advance offerings included community investment program and economic development program advances to members to fund affordable housing and economic development projects. In addition, the FHLBank introduced a new program to assist households facing difficult housing needs. For example, during 2010 funds from this program were used to construct ramps to improve accessibility for homeowners with restricted mobility.

The FHLBank also offered a program called HomeProtect designed to assist homeowners in securing permanent fixed-rate mortgage refinancing. In addition, the FHLBank's "zero-interest fund" promoted housing and business development, as well as job creation and retention.

Improvement in the administration of AHP continues. The FHLBank addressed the programmatic weaknesses identified during the 2009 examination. However, during the 2010 examination, examiners identified additional deficiencies regarding initial monitoring activities and board reporting. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration. Management committed to addressing these matters within reasonable timeframes. Subsequent visits confirmed that FHLBank management had remedied deficiencies noted during the 2010 examination.

## District 6: The Federal Home Loan Bank of Indianapolis

### Overview

The FHLBank of Indianapolis is the tenth largest FHLBank with total assets of \$44.9 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Indianapolis's overall condition include continued weakness in its private-label MBS portfolio, its growing concentration of mortgage-related assets, the weak condition of several of its members due to district economic conditions, and its growing reliance on members that are insurance companies, all of which affect the FHLBank's credit risk.

### Condition and Performance

The FHLBank of Indianapolis's financial condition and performance are adequate. The FHLBank's adequate earnings, retained earnings, and risk metrics and satisfactory capitalization offset significant factors in its financial condition and performance, which include its exposure to declining advances balances, reliance on nonmission assets to generate income (see page 64 for more on mission-related and nonmission assets), the weak condition of several members, growing reliance on members that are insurance companies, and the potential for more private-label MBS portfolio credit-related losses.

Since peaking in November 2008, advances at the FHLBank have fallen 43 percent, and are now at the lowest level in 10 years. Advances are only 41 percent of total assets—also the lowest proportion in more than 10 years. One-third of Indianapolis's outstanding advances are to insurance companies, one of the largest proportions in the System, with insurance companies making up 7 of the FHLBank's 10 largest member borrowers. Due to economic conditions and mergers, 10 percent of the Indianapolis's advances are outstanding to inactive members and will not be renewed.

As of December 31, 2010, Indianapolis held \$19.8 billion of investment assets including \$7.1 billion of MBS and \$8 billion of liquidity assets. Indianapolis is one of the four FHLBanks with a larger investment portfolio than advance holdings.

At year end, the FHLBank's private-label MBS portfolio accounted for 4 percent of its total assets and stood at \$1.9 billion in par value and \$1.7 billion in fair value. Approximately 72 percent of the FHLBank's private-label MBS portfolio by carrying value has been downgraded, including 63 percent of its portfolio downgraded below investment grade. The FHLBank has recorded \$130 million in credit-related impairment charges to date.

Indianapolis generated \$267 million in net interest income and \$111 million in net income in 2010. Earnings were generally adequate with the exception of a \$13 million quarterly net income loss posted June 30, 2010, arising from changed assumptions in modeling impairment on its private-label MBS. At December 31, 2010, the FHLBank held \$428 million of retained earnings and posted an above-average 0.95 percent retained earnings-to-assets ratio. Its regulatory capital ratio was 6 percent, and the market value of its equity exceeded the book value of its equity by 6 percent.

### Risk Management

The level of credit risk is increasing, primarily due to weaknesses in the FHLBank of Indianapolis's private-label MBS portfolio, but also because of the weakened condition of the FHLBank's members and a growing concentration of advances to insurance companies. At the end of 2009, \$1.1 billion, or 44 percent, of the carrying value of the private-label MBS portfolio was subinvestment grade, representing 39 percent of regulatory capital.

The FHLBank of Indianapolis must continue to monitor membership creditworthiness closely, and the board of directors must remain informed about the risks associated with lending to insurance companies and regularly evaluate whether the level of advances to this borrower class remains consistent with the FHLBank of Indianapolis's strategic plan and the board's risk appetite.

Weaknesses in its information technology management influence FHFA's supervisory assessment of the direction of operational risk and quality of risk man-

agement at the FHLBank. Information technology management particularly needed improvement in the area of information technology security—before July 2010, the FHLBank did not have an employee with appropriate authority and independence to oversee this area, nor has FHLBank of Indianapolis identified appropriate metrics to monitor information technology security or developed a program for identifying information technology security threats.

FHFA also has identified several weaknesses in market risk management processes, most notably related to market risk modeling. The FHLBank of Indianapolis needs to address shortcomings in the modeling methodologies related to income simulation, mortgage prepayment back-testing, and model validation.

#### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

#### Affordable Housing and Community Investment Programs

The FHLBank held two competitive AHP funding rounds and awarded \$10.5 million. The FHLBank's community investment cash advance offerings included community investment program, rural development program, and urban development program advances to be used for development of housing, infrastructure improvements, and small business job creation.

The FHLBank actively manages projects on the AHP watch list, and it is especially vigilant in monitoring aging and unfunded projects. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included expanding the quarterly attribute testing for the AHP set-aside programs. Management committed to addressing these matters within reasonable timeframes.



## District 7: The Federal Home Loan Bank of Chicago

### Overview

The FHLBank of Chicago is the fourth largest FHLBank with total assets of \$84.1 billion. The overall condition of the FHLBank presents supervisory concerns. The key factors affecting Chicago's overall condition include continued weakness in corporate governance, market risk, credit risk, operational risk, and financial condition and performance. The FHLBank operates under a consent order to cease and desist and has not yet converted to the capital structure required by the Gramm-Leach-Bliley Act.

### Condition and Performance

The FHLBank of Chicago's financial condition and performance are weak, although improved relative to 2009. Significant factors in the FHLBank's financial condition and performance include its declining advances balances, a poor quality private-label MBS portfolio, its large proportion of nonmission assets, the potential for additional credit-related losses on its private-label MBS portfolio, and high levels of mandatorily redeemable and excess stock (see page 64 for more on mission-related and nonmission assets).

The FHLBank generated \$756 million of net interest income during 2010, compared to \$570 million during 2009. This increase was due to lower funding costs and increased income from the FHLBank's large investment portfolio. The FHLBank generated \$366 million of net income in 2010 relative to a \$65 million loss in 2009, reflecting higher net interest spread on assets and lower credit-related other-than-temporary impairment charges in 2010. Due to the restriction on the payment of dividends without FHFA approval, almost all of Chicago's net income in the first three quarters of the year flowed into retained earnings. The FHLBank paid a dividend in the fourth quarter of 2010. As of December 31, 2010, the FHLBank's retained earnings-to-assets ratio of 1.31 percent was the highest in the System, and its \$1.1 billion in retained earnings was the second-highest balance in the System.

Since peaking in December 2008, advances at the FHLBank have fallen 50 percent, and are now at 2001 levels. Advances are only 23 percent of total assets, the lowest proportion of any FHLBank, and 7 percent of advances are outstanding to inactive members and will not be renewed. Due to the decline in advances and FHFA's restriction on the redemption or repurchase of excess stock without approval, Chicago holds \$1.4 billion of excess stock. In addition, the FHLBank counts \$1 billion in subordinated debt in meeting its regulatory leverage limit.

As of December 31, 2010, Chicago held \$46.5 billion of investment assets including \$26 billion of MBS. Chicago holds the second largest investment portfolio, and the largest proportion of investments to total assets of any FHLBank. The FHLBank's private-label MBS portfolio accounted for 3 percent of its total assets and stood at \$3.4 billion in par value and \$2.4 billion in fair value. Approximately, 95 percent of the FHLBank's private-label MBS portfolio has been downgraded, including 89 percent of its portfolio downgraded to below investment grade. To date, the FHLBank has recorded \$660 million in credit-related impairment charges.

The high level of excess stock in meeting its regulatory requirements will affect Chicago's conversion to a capital structure in compliance with the Gramm-Leach-Bliley Act. To convert successfully, the FHLBank needs to retain a substantial portion of the excess stock not subject to a redemption request. Chicago will need to implement a plan acceptable to FHFA to reduce investments, increase advances as a share of total assets, and reduce or eliminate its reliance on excess stock to satisfy regulatory capital requirements. Furthermore, beginning in 2011, the amount of the FHLBank's subordinated notes that can qualify in the FHLBank meeting its regulatory leverage test will ratchet down by 20 percent per year.

### Risk Management

The level of market risk remains a concern for the institution. The FHLBank of Chicago reported improved

key market risk metrics, but market risk exposure, arising primarily from the FHLBank of Chicago's exposure to mortgage-related assets, remains volatile. Pursuant to Article III of the October 2007 consent order, the FHLBank of Chicago submitted a market risk management framework to address concerns over funding and hedging practices. The proposed framework improved the FHLBank's overall market risk management structure; however, the FHLBank must demonstrate the ability to operate under this revised structure to satisfy FHFA's concerns fully.

Although private-label MBS represents a small portion of the overall investment portfolio, this poses a high level of credit risk. Private-label MBS remains a significant supervisory concern due to the uncertainty in the housing market and historically high unemployment levels. In addition, financial strain among member institutions in the FHLBank of Chicago's district remains a significant concern. The FHLBank's credit risk management practices are adequate, but management needs to remain diligent in monitoring and mitigating credit risk.

Management was generally responsive in addressing supervisory concerns but did not redress completely all previous examination weaknesses. The FHLBank did not address fully FHFA concerns related to management succession planning, information security, and the Affordable Housing Program. During the 2010 examination, FHFA identified one statutory and two regulatory violations and discovered that the FHLBank of Chicago continued to purchase MBS investments after its temporary increased authority expired on March 31, 2010. In addition, the FHLBank of Chicago needs to correct weaknesses identified by internal audit on a timely basis and improve the strategic planning process.

The FHLBank of Chicago's operations and controls are deficient in key areas. The FHLBank implemented a new operating system in the first half of 2010 to enhance some of the FHLBanks outdated operating systems. However, deficiencies in end-user developed applications continued to expose the FHLBank to significant operational risk. For example, inaccuracies in the spreadsheet used to monitor total MBS investments contributed to MBS purchases above authorized levels.

## Examination Assessment

|                             | Level of Risk   | Quality of Management |
|-----------------------------|-----------------|-----------------------|
| <b>Market Risk</b>          | <b>Moderate</b> | <b>Weak</b>           |
| <b>Credit Risk</b>          | <b>High</b>     | <b>Adequate</b>       |
| <b>Operational Risk</b>     | <b>Moderate</b> | <b>Adequate</b>       |
| <b>Corporate Governance</b> |                 | <b>Weak</b>           |

## Affordable Housing and Community Investment Programs

As a result of the FHLBank's continued earnings challenges, the FHLBank's board of directors approved the acceleration of \$5 million in AHP contributions from future years. Coupled with returned and recaptured funds, the FHLBank held one \$4.6 million competitive AHP funding round and also funded households participating in the FHLBank's AHP set-aside program. The FHLBank's community investment cash advance offerings included community investment program and community economic development program advances for member financial institutions to provide long-term funding for affordable housing and economic development projects and community revitalization.

The deficiencies identified during the 2010 examination, coupled with the less than full resolution of 2009 findings, continue to raise significant concerns about the oversight and administration of the FHLBank's affordable housing and community investment programs. The examination findings included violations with respect to pricing of community investment program products. Deficiencies persist in program management—challenged and delayed projects are not actively managed. An antiquated management information system impedes operational effectiveness. Management has committed to addressing these matters. Discussions with management subsequent to the 2010 examination support that changes are underway to remedy program weaknesses.

## Private-Label MBS Continue to Challenge Several FHLBanks

Private-label mortgage-backed securities losses continue to affect the financial performance of several FHLBanks.

In aggregate, the FHLBanks hold 1,622 private-label MBS with a par value of \$46.9 billion. Although all of the private-label MBS held by the FHLBanks had triple-A ratings when purchased, the portfolios currently are generally of poor credit quality.

Fifty-nine percent of the portfolios have been downgraded below investment grade and 43 percent of the portfolios have been downgraded to triple-C or below by one or more Nationally Recognized Statistical Ratings Organizations (NRSROs). This distinction is important because NRSROs rate securities triple-C or below when they believe that a security will incur a realized principal loss before payoff.

Since 2008, the FHLBanks have recognized \$3.6 billion of credit charges on their private-label MBS portfolios. Several FHLBanks have recorded quarterly net income losses due to credit charges on their private-label MBS holdings.

As of December 31, 2010, the FHLBanks' aggregate private-label MBS portfolio consisted of

- 39 percent jumbo prime
- 44 percent Alt-A
- 12 percent option-ARM (adjustable-rate mortgages)
- 4 percent subprime and other securities

The FHLBanks' Alt-A and option-ARM holdings are particularly challenging, because 83 percent have been downgraded below investment grade, and 73 percent have been downgraded to triple-C or below by one or more NRSRO.

The securities originated after 2004 are generally of poor credit quality, with 92 percent downgraded below investment grade, and 73 percent downgraded to triple-C or below by one or more NRSRO. For example, 28 percent of the FHLBanks' private-label MBS were originated in 2004 or earlier; 24 percent were originated in 2005; 21 percent were originated in 2006; and 26 percent originated in 2007 and 2008.

Despite their financial significance, private-label MBS make up only 4 percent of the assets of the FHLBanks. The FHLBanks of Cincinnati and Des Moines have inconsequential holdings of private-label MBS, while the FHLBanks of San Francisco and Atlanta hold nearly 60 percent of aggregate FHLBank private-label MBS.

Seven FHLBanks held \$1.5 billion or more of private-label MBS and have had 50 percent or more of their portfolio downgraded below investment grade by one or more NRSRO.

The future performance of the FHLBanks' private-label MBS holdings is uncertain. The amount of credit charges recognized by the FHLBanks in 2010 was half the amount recognized in 2009. In addition, the delinquency rates on the underlying mortgages collateralizing the securities have stabilized and, in some instances, improved. However, foreclosure rates of the underlying mortgages collateralizing the securities is increasing, signaling the potential for larger future principal losses. Also, several private-label MBS have begun to report realized principal losses, and this trend is expected to accelerate in 2011.

## District 8: The Federal Home Loan Bank of Des Moines

### Overview

The FHLBank of Des Moines is the seventh largest FHLBank with total assets of \$55.6 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Des Moines's overall condition include improved interest-rate risk and credit risk management and solid profitability. Des Moines is one of only two FHLBanks that has reported growth in advances since the spring of 2007, before the liquidity crisis began.

### Condition and Performance

The FHLBank of Des Moines's financial condition and performance are adequate. Significant factors in the FHLBank's financial condition and performance include strong earnings, continued growth of retained earnings, and a general improvement in market risk metrics. Des Moines's advances remain \$6.6 billion above the precrisis level, which is the second best performance in the System.

Des Moines reported a return on assets of 22 basis points in 2010, which is slightly higher than the System average of 21 basis points and above its 2009 return on assets of 21 basis points. The FHLBank's earnings were supported by strong net interest spread and a lack of credit losses on private-label MBS. Des Moines's lack of exposure to private-label MBS has been a significant reason for its superior performance relative to other FHLBanks. As of December 31, 2010, the par value of its private-label MBS holdings was \$58 million—the smallest in the System.

Des Moines increased its retained earnings by 15 percent in 2010 following 27 percent growth in 2009. Des Moines's retained earnings-to-assets ratio of 1 percent is the fourth highest in the System.

### Risk Management

The FHLBank of Des Moines's level of operational risk is improving. The FHLBank's primary information technology strategic plan priority is to upgrade its functional but outdated core banking system, and it has followed the project plan. In the shorter term, the

FHLBank has extended the useful life of the core system by automating a number of critical user-developed applications over the last few years while strengthening controls over the remaining user-developed applications.

The FHLBank's interest rate risk exposure has declined, mainly due to the June 2009 sale of \$2.1 billion in Mortgage Partnership Finance® assets, the repurchase of related expensive long-term debt, and the general slowdown in mortgage prepayment speeds. These actions brought the FHLBank's market risk sensitivity within the FHLBank's limits. Subsequent purchases of collateralized mortgage obligations partially reversed the trend, although the FHLBank remained within its market risk sensitivity limits.

Des Moines has the largest concentration of advances to insurance companies in the System, which may pose higher risk than lending to traditional insured depositories because of the absence of legal precedents regarding the handling of collateral in the event of failure. For insurance company members, the FHLBank requires delivery of collateral securing advances.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

### Affordable Housing and Community Investment Programs

The FHLBank held one competitive AHP funding round and awarded \$16.4 million. The FHLBank's community investment cash advance offerings included community investment program, rural development program, and urban development program advances.

Delayed and troubled projects are actively managed, and the board is kept informed of these challenged projects with an AHP watch list and related reports. During the 2010 examination, examiners noted certain functions that would benefit from strengthened controls and enhanced systems. Most significantly, examiners noted that the FHLBank must address its recurring late and inaccurate data reporting to FHFA.

In addition, examiners shared with management observations and recommendations to strengthen program administration, which included increasing monitoring of owner-occupied rehabilitation projects. Management committed to addressing these matters within reasonable timeframes. The FHLBank was timely and accurate in its data submission to FHFA after the 2010 examination.



## District 9: The Federal Home Loan Bank of Dallas

### Overview

The FHLBank of Dallas is the eleventh largest FHLBank with total assets of \$39.7 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Dallas's overall condition include its sound financial performance and adequate corporate governance. At the same time, advance volumes have declined sharply, which may cause future earnings to come under pressure, and the level of credit risk is rising as the number of financially weakened members has increased.

### Condition and Performance

The FHLBank of Dallas's financial condition and performance are adequate. Significant factors in the FHLBank's financial condition and performance include its solid earnings, which have been adequate to support operations, provide a sufficient dividend, and build retained earnings. Advances to members have declined substantially over the past two years, however, and may decline further.

The FHLBank of Dallas has minimal exposure to private-label MBS; the portfolio accounts for less than 1 percent of total assets and stood at \$398 million in par value and \$307 million in fair value at year-end 2010. To date, the FHLBank has incurred only \$7 million in credit losses on these securities. Dallas paid dividends at an annualized rate of 0.375 percent in 2010. The level of retained earnings at Dallas compares favorably to other FHLBanks in the System. Retained earnings increased 27 percent in 2010 and have grown 114 percent since December 31, 2007.

The FHLBank's advances—its primary business—have declined for nine consecutive quarters, falling 63 percent from record highs in September 2008, and now stand at the lowest level since the third quarter of 1999. The majority of the decline in advances over the last two years is attributable to the FHLBank's largest members. If these trends continue, earnings could eventually shrink to such an extent that the FHLBank

would have to change its business model by reducing dividend payouts, increasing spreads on advances, or reducing operating expenses, which, relative to the FHLBank's size are the highest in the System, reflecting in part, its recent asset decline.

### Risk Management

The FHLBank has filled the positions of chief risk officer, director of market risk, and director of credit risk. The new risk managers have the potential in time to enhance the FHLBank's risk management efforts. The FHLBank has made substantial progress in correcting 2009 examination findings.

The FHLBank's level of credit risk is rising because the number of financially weakened members has grown since the last examination, and exposure to these members has increased in magnitude and in relation to total advances. The FHLBank's private-label MBS portfolio has experienced some credit deterioration over the past year, although the overall risk is minimal, because this portfolio represents less than 1 percent of total assets. FHFA is concerned with the level of subprime private-label MBS collateral securing advances to some members. The FHLBank should consider establishing limits on the amount of subprime mortgage exposure it is willing to accept.

Management has begun tracking and reporting enterprise-wide operational exposures and has not identified any significant operational losses since the 2009 examination. In 2010, FHFA examiners identified a weakness in the FHLBank's classification methodology and controls surrounding end-user computing applications used for purposes other than financial reporting. The FHLBank's policies and procedures in this area prescribe the level of controls based on classification type, yet the classification system does not take into consideration the application's complexity or criticality.

The FHLBank's primary source of market risk is cap risk, which is exposure to the effect of caps on floating-rate collateral. Since the 2009 examination, the FHLBank's cap risk has declined due to a decreasing

net short cap position and a downward shift in the one-month LIBOR forward curve. Management has begun reporting cap risk exposures to the board and has addressed the market risk management weaknesses identified in the last examination.

Examiners did not identify any significant market risk weaknesses at the 2010 examination, although the FHLBank should consider revising its key-rate duration limit at the 10-year term point to conform to the FHLBank’s risk appetite.

**Examination Assessment**

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Adequate              |

**Affordable Housing and Community Investment Programs**

The FHLBank held one competitive AHP funding round and awarded \$18.7 million. The FHLBank’s community investment cash advance offerings included community investment program and economic development program advances to member financial institutions for long-term funding for affordable housing and economic development projects and community revitalization. The FHLBank also offers small, noncompetitive grants to businesses in association with the FHLBank’s economic development advances program and to community-based organizations under the FHLBank’s partnership grant program.

Stalled and troubled projects in the FHLBank’s AHP portfolio remain at manageable levels. During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included ensuring consistency in monitoring documentation. Management committed to addressing these matters within reasonable timeframes.

## District 10: The Federal Home Loan Bank of Topeka

### Overview

The FHLBank of Topeka is the smallest FHLBank with total assets of \$38.7 billion. The overall condition of the FHLBank is satisfactory. The key factors affecting Topeka's overall condition include improved market risk controls, stable core earnings, and an adequate risk-adjusted capital position. Principal concerns affecting the FHLBank's condition include enterprise risk management deficiencies, imprecise market risk metrics, and Affordable Housing Program administration.

### Condition and Performance

The FHLBank of Topeka's financial condition and performance are adequate. Significant factors in the FHLBank's financial condition and performance include consistent core earnings, modest exposure to private-label MBS, and a strong risk-adjusted capital position. However, growing mortgage exposure, earnings pressure from a changing balance sheet, and earnings volatility present concerns for the future.

As of December 31, 2010, the FHLBank held \$4.2 billion of whole loan mortgages, a 25 percent increase from year-end 2009. Topeka was the only FHLBank that had a net increase in its mortgage portfolio in 2010. Mortgages accounted for 11 percent of assets as of December 31, 2010, and management expects growth of the portfolio to continue.

A mortgage portfolio of this magnitude requires close attention to ensure sound market risk management. Because the FHLBank continued to purchase a significant amount of mortgages throughout 2010 when rates were at or near historic lows, extension risk is the primary concern.

If rates increase from their lows, the mortgages will extend, exposing the FHLBank to the risk that the assets will remain on the balance sheet longer than their supporting debt. Attempting to rollover maturing debt in a higher interest-rate environment could result in less favorable or negative spreads on the mortgage portfolio. In late 2010, management took action to

reduce exposure to rising rates by extending the final maturities of some debt used to fund the mortgage portfolio.

Topeka was modestly profitable in 2010, reporting net income of \$34 million for the year. This was a significant decline from net income of \$237 million in 2009. However, the FHLBank's core earnings are stable, consistently reporting net interest income of approximately \$60 million per quarter. The primary drivers of net income at Topeka over recent years have been volatile noninterest items, particularly mark-to-market gains and losses on derivatives.

The FHLBank purchases derivatives as part of a prudent hedging strategy to protect core economic earnings from unexpected market turbulence. However, accounting rules require that many of these derivatives be marked to market, with changes in fair value run directly through the income statement. In 2010, declines in market volatility and interest rates resulted in a \$175 million loss on derivatives, which reversed 2009 gains of \$111 million and was the primary driver of net income for the year.

These are not economic losses for the FHLBank; rather, they represent mark-to-market adjustments required by accounting rules for derivatives.

Advance spreads may be pressured as higher-spread advances run off faster than lower-spread products. Net spreads may be compressed as the FHLBank's mortgage-backed securities portfolio, which earns a higher spread than the core advance business, rolls off over the next few years and becomes a smaller proportion of the balance sheet in the System.

Despite these challenges, Topeka remains one of the stronger FHLBanks in the System. It has taken modest impairment charges on its private-label MBS portfolio, which had a par value of \$1.3 billion at year-end 2010, and consistently reports strong core earnings. Although volatility in net income has resulted in some quarterly losses, the FHLBank has built a strong risk-adjusted capital position and continues to pay dividends.

## Risk Management

Complacency in the risk oversight function has historically been a problem for the FHLBank of Topeka. Risk governance and independent risk oversight processes remain weak, though they are improving. Management and the board are in the early stages of developing an enterprise risk management framework that integrates strategic planning, business processes, performance measurement, and incentive compensation.

FHFA examiners continue to identify a high volume of risk issues that management's risk processes do not capture. Some examiner-identified issues stem only from documentation deficiencies and do not present material risk to earnings or capital, but the inability of internal processes to identify risk issues fully is evidence that the FHLBank of Topeka has not developed strong risk governance practices and risk management capabilities. Comprehensive and proactive risk oversight is critical to sustainable long-term financial performance.

Market risk calculations and controls require enhancements. Management must improve model inputs and capabilities, including yield curve construction and interest accrual reconciliations. Other needed risk management improvements include the following: establishing a maximum absolute key-rate duration limit;

- analyzing and incorporating into its periodic attribution analysis the contribution of additional key factors for spreads and prepayment forecasts; and
- expanding the attribution analysis to cover duration and value-at-risk changes.

Management must also incorporate tolerance levels for errors in prepayment back-testing procedures for mortgage assets.

Many business and control processes rely on manual user-developed applications. Management must

enhance automation to reduce the operational risk of relying on these manual applications. Improvements will ensure greater likelihood of success when the FHLBank begins long-term initiatives to implement programs to address identified concerns.

## Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | Moderate      | Adequate              |
| Operational Risk     | Moderate      | Adequate              |
| Corporate Governance |               | Weak                  |

## Affordable Housing and Community Investment Programs

The FHLBank held two competitive AHP funding rounds and awarded \$22.3 million. The FHLBank's community investment cash advance offerings included community investment program and community development program advances for long-term funding for affordable housing and economic development projects. The FHLBank also offers an emergency loan program, called HELP, to provide members with attractively-priced advances to finance housing and community development loans in areas affected by natural disasters. Finally, the Joint Opportunities for Building Success program, or JOBS, is an economic development initiative that assists members in promoting employment growth in their communities.

The deficiencies identified during the 2010 examination, coupled with unresolved findings from the 2008 and 2009 examinations, continued to raise significant concerns about the FHLBank in its administration of the AHP. Since the 2008 examination, the board of directors and executive management has demonstrated a commitment to enhance program administration through a number of initiatives.

FHFA identified matters of significant concern at the 2010 examination, including a significant monitoring backlog for AHP projects, inadequate identification and management of problem projects, and failure to critically evaluate projects to ensure that project costs are reasonable, subsidies are necessary, and projects comply with their scoring commitments. Management continued its efforts to replace the FHLBank's deficient AHP management information system. Since the 2010 examination, management has informed FHFA that changes are underway to remedy program weaknesses.

## District 11: The Federal Home Loan Bank of San Francisco

### Overview

**T**he FHLBank of San Francisco is the largest FHLBank with total assets of \$152.4 billion. The overall condition of the FHLBank presents limited supervisory concerns. The key factors affecting San Francisco's overall condition include its large private-label MBS portfolio and the related credit risks combined with concerns about the FHLBank's retained earnings level and methodology. The FHLBank has been growing its retained earnings rapidly and has one of the largest retained earnings balances in the System, but it also has the largest private-label MBS portfolio in the System, which increases the FHLBank's risk profile.

### Condition and Performance

The FHLBank of San Francisco's financial condition and performance remain weak, despite improvements in earnings performance in 2010. The FHLBank's large private-label MBS portfolio, the shrinking balance sheet, and likely lower net interest income from the run-off of highly profitable investments are concerns.

While San Francisco's return on average assets of 24 basis points exceeded the System average of 21 basis points and was the third highest in the System, the refinancing of legacy mortgage assets augmented profitability. As these higher-coupon mortgage assets prepay or default, management expects any new replacement mortgage assets will yield only a fraction, about a quarter, of the current mortgage portfolio return.

Profits in 2010 increased retained earnings to \$1.6 billion, or 1.06 percent of total assets, as of December 31, 2010. That is up from \$1.2 billion, or 0.64 percent of assets, a year ago.

The FHLBank's private-label MBS portfolio stood at \$17.1 billion in par value and \$13.4 billion in fair value as of December 31, 2010—the largest in the System. The private-label MBS portfolio has a high concentration of poor performing Alt-A loans and a large exposure to loans from the weak vintages of 2005, 2006, and 2007.

San Francisco has \$2.9 billion of noncredit other-than-temporary impairment reported in accumulated other comprehensive loss. The FHLBank of San Francisco's fourth quarter 2010 other-than-temporary impairment benchmarking analysis to external sources indicates its loss projections compare generally at the lower end of a wide benchmark range. Management estimates of credit impairments are highly sensitive to assumptions on house price index, mortgage delinquency roll rates, servicer performance, and other economic variables, as well as model adjustments.

### Risk Management

Credit risk, particularly associated with MBS, is high and the future trend uncertain as the FHLBank of San Francisco's private-label MBS portfolio continues to experience large credit impairments that negatively affect the institution's financial condition. Weaknesses in residential and commercial real estate markets are particularly acute in the FHLBank of San Francisco's district, which includes Nevada, Arizona, and California. In 2010, 40 members of the FHLBank of San Francisco failed, merged, or were placed in conservatorship, although there have been no credit losses on advances. The FHLBank must improve credit and collateral processes relating to collateral haircuts, collateral eligibility, and third-party servicers.

Enterprise risk management practices need improvement, and governance is weak. The FHLBank of San Francisco designated a chief risk officer in June 2010, but this did not improve the FHLBank's ability to assess, report, or mitigate low probability/high severity risk events, the operational risk of poor project planning, or control breakdowns.

The risk management function is not sufficiently independent from risk-taking functions and must improve its processes for validating the credit risk model used to determine other-than-temporary credit impairment in the private-label MBS portfolio. The function also needs to independently review all valuation systems, including the advance collateral liquidation margining process.



The FHLBank of San Francisco also needs to improve its method for determining the amount of retained earnings required to absorb possible risk of loss from market, credit, and operational risks.

Operational risk was heightened by implementation delays and cost overruns in an enterprise-wide information systems replacement project. The lack of continuity in project management and leadership created additional challenges as management filled the chief information officer and project management officer positions. Operational incident reporting must be improved to report promptly all significant control breakdowns.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | Moderate      | Adequate              |
| Credit Risk          | High          | Adequate              |
| Operational Risk     | Moderate      | Weak                  |
| Corporate Governance |               | Weak                  |

### Affordable Housing and Community Investment Programs

The FHLBank held two competitive AHP funding rounds and awarded \$69.1 million. The FHLBank's community investment cash advance offerings included a community investment program, community enterprise program, and home preservation program advance, which provide members with long-term funding opportunities to help create or retain jobs, provide services and other benefits to eligible households and communities, assist in refinancing or modifying mortgage loans for eligible at-risk households, and fund affordable housing. In addition, the FHLBank created the Access to Housing and Economic Assistance for Development grant program (AHEAD), to support economic development and housing projects during the conception and early development stages.

In recent months, the FHLBank has been particularly vigilant in monitoring incomplete projects. The FHLBank uses risk assessments to evaluate incomplete homeowner and rental projects for completion and financial risks. The risk assessment assigns risk ratings to specific projects based on whether AHP subsidies have been disbursed, the age of projects, the procurement of other funding sources, whether construction or rehabilitation has started, and other factors.

During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included enhancing the evaluation of projects' fulfillment of certain scoring criteria. Management committed to addressing these matters within reasonable timeframes.

## District 12: The Federal Home Loan Bank of Seattle

### Overview

The FHLBank of Seattle is the ninth largest FHLBank with total assets of \$47.2 billion. The overall condition of the FHLBank presents supervisory concerns. The key factors affecting the FHLBank of Seattle's overall condition include unacceptable levels of credit risk, substantial weaknesses in financial condition and performance, and significant deficiencies in corporate governance. Other concerns include moderate market risks with a thin capital cushion and a high level of operation risk due to insufficient information technology systems.

### Condition and Performance

The FHLBank of Seattle's financial condition and performance are weak. Significant factors in the FHLBank's financial condition and performance include large and volatile credit losses on private-label MBS, insufficient retained earnings, declining balances of advances, high levels of excess stock, a large balance of stock under request for redemption, a growing balance of stock outstanding that is past redemption due date, a low market value of equity, and a lack of balance sheet focus on mission assets.

Seattle's balance of private-label MBS stood at \$3.8 billion in par value and \$2.6 billion in fair value at year-end 2010, and accounted for about one times capital. Approximately 70 percent of securities were rated below investment grade as of December 31, 2010, up from 51 percent in 2009, and up from less than 1 percent in 2008. The portfolio, which is primarily securities backed by Alt-A loans, has generated a total of \$428 million in credit losses since 2008, including \$106 million of charges during 2010. The risk of large, additional losses is unacceptably high relative the FHLBank's retained earnings, which were just \$73 million at year-end 2010.

Advances have declined rapidly over the past two years, with declines of 40 percent in both 2009 and 2010. At approximately \$13 billion, advances are at their lowest point in more than 10 years. The largest borrower

accounts for 32 percent of advances. With declining advances and capital stock under repurchase and redemption restrictions, excess stock—that is, stock that does not support membership or activity requirements—accumulated at the Seattle FHLBank in both 2009 and 2010. By December 2010, \$1.9 billion, or 68 percent, of capital stock was excess.

The FHLBank suspended meaningful repurchases of capital stock in 2004, and since that time a redemption queue has formed. By year-end 2010, \$1.2 billion, or 43 percent, of total capital stock was under request for redemption. Beginning in 2009 and into 2010, the redemption date passed for some stock without redemption by the Seattle FHLBank. At year-end 2010, \$213 million, or 8 percent, of capital stock was past its redemption date.

Due primarily to low fair values of private-label MBS, the market value of FHLBank equity is low relative to the par value of its capital stock. As of December 31, 2010, the ratio between these measures was 0.75—low, but an improvement compared to the 2009 ratio of 0.52 and the 2008 ratio of 0.18.

With advances in decline and a fixed base of capital stock, the FHLBank replaced lost advances with non-mission investments in 2009 and 2010. As a result, the FHLBank's mission focus declined. Advances and mortgage loans—the FHLBank's only two on-balance sheet assets qualified as "mission"—comprised 35 percent of assets in 2010, down from 52 percent in 2009 and down from 72 percent in 2008. (For more on mission- and nonmission-related assets, see page 64.)

### Supervisory Actions

At the end of 2008, the FHLBank of Seattle failed its risk-based capital test, primarily due to the devaluation of private-label MBS. FHFA deemed the FHLBank undercapitalized under the Prompt Corrective Action rule as of March 31, 2009. In November 2009, after the FHLBank regained technical compliance with the risk-based capital rule, the Acting Director of FHFA used his discretionary authority to maintain the FHLBank's undercapitalized status.

In October 2010, the FHLBank entered into a consent order with FHFA. The consent order provides for a stabilization period for the FHLBank through the filing of the June 2011 financials. If the FHLBank meets certain thresholds, it may begin to repurchase, redeem, or pay dividends on its excess capital stock with FHFA approval. The consent order also sets requirements for capital management, asset composition, and other operational and risk management improvements. The consent order maintains the FHLBank's capital classification as undercapitalized. At the time the board entered into the Consent Order with FHFA, the chief executive officer resigned. That position currently is filled in an interim capacity.

### Risk Management

The FHLBank of Seattle's credit risk continues to be a major concern. After the 2009 examination, management reduced collateral requirements for several of its more troubled members in violation of approved policies and procedures and without the board's knowledge.

The FHLBank of Seattle also recognized substantial credit-related other-than-temporary impairment charges against its private-label MBS portfolio as underlying mortgages deteriorated. The FHLBank of Seattle needs to develop strategies to mitigate its high credit risk exposure resulting from poor credit decisions and weak credit risk management oversight. In addition, the FHLBank of Seattle needs to overhaul its credit risk management functions to assess and mitigate emerging risks posed by secured credit and investment activities.

The FHLBank of Seattle deferred investment in technology for an extended period of time, resulting in antiquated information systems. The FHLBank of Seattle developed plans to overhaul its information systems but did not follow the plans' timetables. Consequently, it decided to outsource the information technology function to accelerate improvement.

The FHLBank needs to improve oversight of the outsourcing project because the transition poses signifi-

cant operational risks not being adequately managed, and progress toward overhauling information technology systems has been slowed during the transition. In addition, the board must establish a comprehensive set of information technology policies and programs, including a security program.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Market Risk          | High          | Adequate              |
| Credit Risk          | High          | Weak                  |
| Operational Risk     | High          | Adequate              |
| Corporate Governance |               | Weak                  |

### Affordable Housing and Community Investment Programs

The FHLBank suspended its AHP competitive program and sharply curtailed its AHP set-aside program due to the FHLBank's poor earnings performance in 2009. In the absence of a competitive funding round, the FHLBank focused on bringing a new management information system online, resolving problem projects, addressing monitoring delinquencies, and advancing staff training. The FHLBank offers three community investment advance programs that provide funding to FHLBank members to support affordable housing and economic development initiatives in their communities.

The FHLBank's program administration has improved, with a renewed commitment for more timely and rigorous project analysis. FHLBank management has made a concerted effort to resolve long-standing problem projects. Since the 2009 examination, the FHLBank has made substantial progress eliminating the project monitoring backlog and to train department staff to make the process more effective and efficient. However, challenges persist in bringing the new AHP management information system online and in maintaining the vitality of the program given the weakened financial condition of the FHLBank.

During the 2010 examination, examiners shared with management observations and recommendations to strengthen program administration, which included expanding the AHP risk report to include additional projects that present increased risk or challenges. Management committed to addressing these matters within reasonable timeframes.

## Office of Finance

**T**he Office of Finance, a joint office of the FHLBanks, issues and services obligations on behalf of the FHLBanks. Located in Reston, Virginia, the Office of Finance issues consolidated obligations when requested by one or more FHLBanks. It has no portfolio of its own and faces minimal credit or market risk.

The Office of Finance has approximately 96 employees and assesses the FHLBanks for the cost of its operations. In 2010, the Office of Finance issued \$533 billion of bonds and \$1.2 trillion of term discount notes; overnight discount notes outstanding averaged \$22.2 billion. The Office of Finance prepares and distributes the combined financial reports for the FHLBanks used in the offering and sale of consolidated obligations.

The 2010 examination noted deficiencies in corporate governance and operations. FHFA's principal supervisory concerns are in overall governing policies and procedures, the internal audit function, and in several operational areas. Senior management turnover has negatively affected the operating environment, contributing to the increase in operational risk. For example, departures since 2008 of the chief risk officer and compliance manager have adversely affected the dealer compliance program's quality and effectiveness.

During the past year, the chief executive officer hired a new chief operating officer, chief risk officer, and chief accounting officer. All three of these positions are critical to the Office of Finance's operations, and the majority of employees report to these three positions.

Other corporate governance concerns include:

- policies and policy-making processes that must be strengthened;
- internal audits in certain key areas that are late and insufficient, which could result in the failure to identify, assess, and rectify emerging concerns; and
- a dealer compliance program that does not sufficiently manage dealer risk or ensure compliance with FHFA regulations.

Additional concerns include the lack of a senior management level committee to oversee operational risks, vendor management practices, business continuity planning, end-user computing, and insurance management.

In 2010, FHFA finalized a rule requiring the Office of Finance board to transition from 3 to 17 members, to include the president of each of the 12 FHLBanks and 5 independent directors. FHFA's Acting Director appointed the 5 independent directors and the initial chair and vice-chair on July 9, 2010. The reconstituted board held a telephone conference call on July 20, 2010, and met for the first time on September 15, 2010. The new board should improve corporate governance at the Office of Finance.

### Examination Assessment

|                      | Level of Risk | Quality of Management |
|----------------------|---------------|-----------------------|
| Operational Risk     | Moderate      | Weak                  |
| Corporate Governance |               | Weak                  |

## Director Compensation

The FHLBanks are governed by boards of directors ranging in size from 13 to 18 people, all of whom are elected by the member institutions. A majority of the FHLBank board members are directors or officers of member institutions, while the remainder (no fewer than 40 percent) are independent, meaning they are neither officers of an FHLBank nor directors, officers, or employees of any of the FHLBank's member institutions.

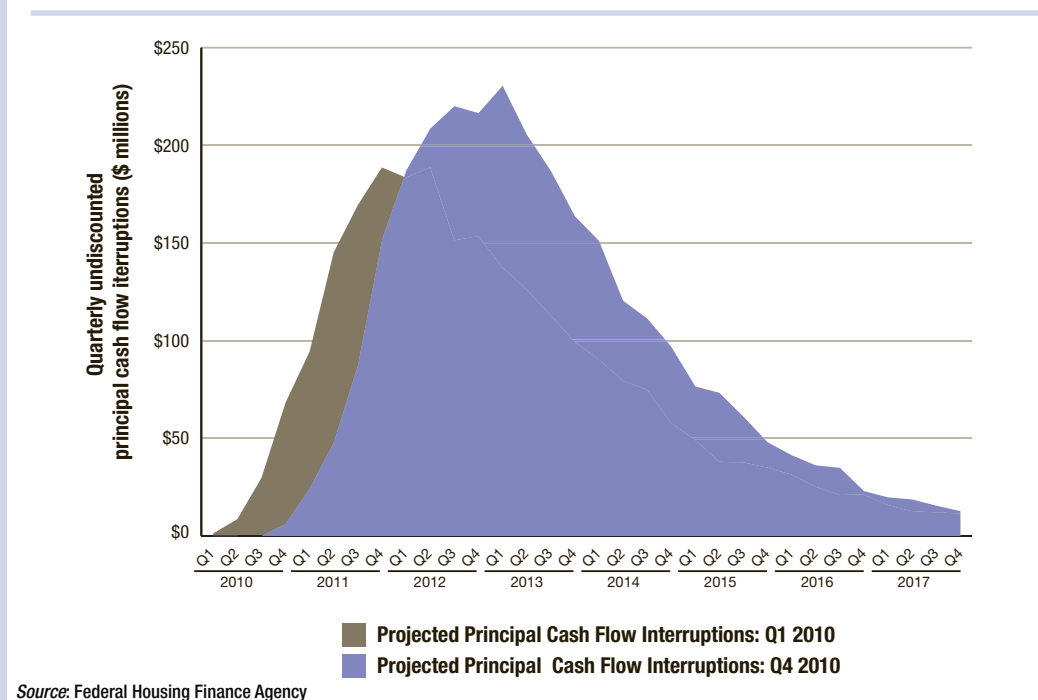
In May 2010, FHFA adopted a final regulation that reconstituted the board of directors of the Office of Finance to include all 12 FHLBank Presidents and 5 independent directors elected by the board.

From 1999 to 2008, the annual compensation of FHLBank directors were subject to statutory caps. With the enactment of the Housing and Economic Recovery Act (HERA) in July 2008, Congress repealed the statutory caps and authorized the FHLBanks to pay reason-

## Projected Principal Cash Flow Interruptions for FHLBank Private-Label MBS

The FHLBanks calculate other-than-temporary impairment of private-label MBS credit partly based on projections of future private-label MBS principal and interest cash flows. The projections are based upon the underlying private-label MBS structure, and economic and accounting models that predict prepayment, default, and loss given default. During 2010, FHFA monitored changes in the FHLBanks' projected principal cash flow interruptions. The results showed that projected principal cash flow interruptions are moving further into the future (see Figure 26). The delay in principal cash flow interruptions is partly due to increases in delinquency and foreclosure duration.

Figure 26. FHLBanks Projected Principal Cash Flow Interruptions, Private-Label MBS

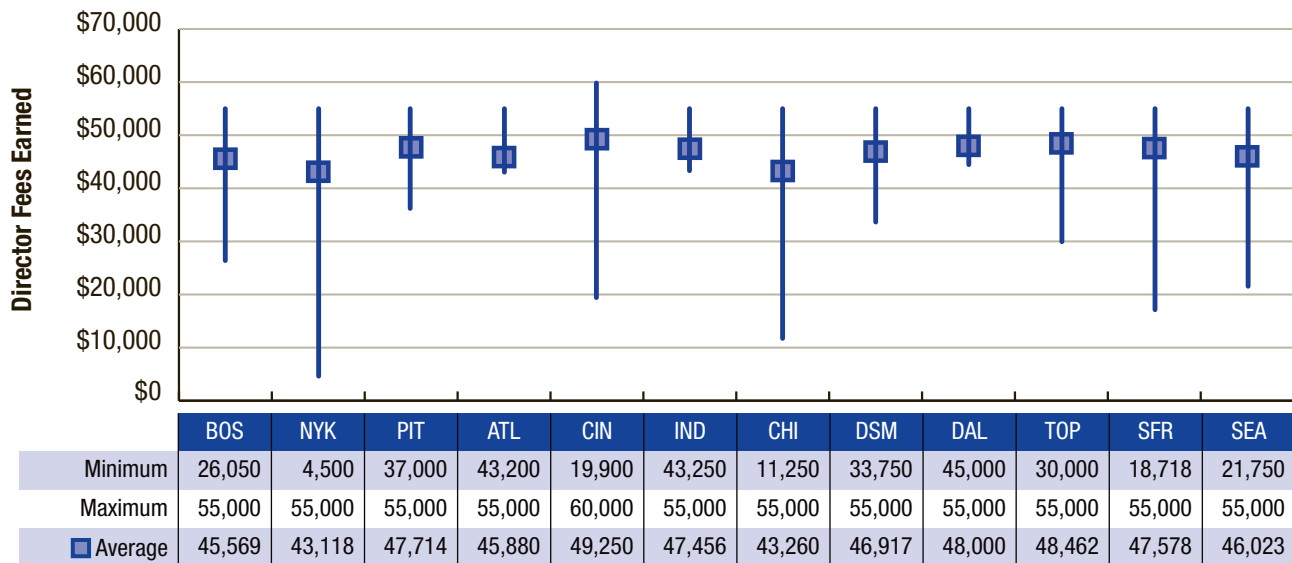


FHFA also monitored whether the predicted principal cash flow interruptions used to calculate other-than-temporary impairment also matched realized principal cash flow interruptions for 2010. The results showed that the FHLBanks' projected principal cash flow interruptions were generally greater than the realized principal cash flow interruptions as reported by Intex, a third-party data provider.

The delay in principal cash flow interruptions coupled with the notable difference between forecasted and actual interruptions highlights the difficulty in modeling private-label MBS cash flows and the uncertainty surrounding the credit other-than-temporary impairment estimate generated by the FHLBanks.



Figure 27. Director Fees Earned in 2010



Source: Federal Housing Finance Agency

able compensation to their directors, subject to FHFA review, and required FHFA to report to Congress annually on the directors' compensation.

For 2010, most FHLBanks set the maximum annual compensation as follows:

- \$60,000 for a chairman;
- \$55,000 for a vice chairman;
- \$50,000 to \$55,000 for a committee chairman; and
- \$45,000 for all other directors.

At the Cincinnati and Indianapolis FHLBanks, the compensation limits differed slightly. At the Cincinnati FHLBank, the maximum annual compensation was \$60,000 for any single director. Directors who served on the audit committee or financial and risk management committee were paid an additional \$5,000 in annual compensation. At the Indianapolis FHLBank, additional annual committee chair fees (\$5,000 or \$10,000 per committee chair position, depending on the committee) may be earned depending on commit-

tee chair assignments throughout the year. In practice, Indianapolis directors hold no more than one committee chair assignment (see Figure 27).

In May 2010, FHFA adopted this same standard for compensation to be paid to the Office of Finance directors through a new rule. The maximum annual compensation at the Office of Finance was set at \$125,000 for the chairman, \$100,000 for the audit committee chair and \$85,000 for an independent director, effective July 1, 2010. By regulation, the FHLBank presidents receive no compensation or reimbursement for their service as Office of Finance directors.

The total paid by the 12 FHLBanks and the Office of Finance to directors during 2010 was \$9.5 million, ranging from a low of \$255,000 at the Office of Finance to a high of \$871,750 in Indianapolis. The total fees paid by the Office of Finance reflect compensation paid to the chairman and the other four independent directors. The chairman at 11 of the FHLBanks received \$60,000, the maximum amount set by most FHLBanks. The chairman at Indianapolis received \$65,000 (\$60,000 for being

the board chair and \$5,000 for being the chair of the executive/governance committee) and the chairman at the Office of Finance earned \$125,000.

The average compensation for an FHLBank director other than the chairman ranged from \$43,118 to \$49,250 in 2010, and an Office of Finance director received \$32,500 (prorated for six months of service). The vertical lines in Figure 27 display the range of fees earned per director (excluding the chairman) at each FHLBank and the Office of Finance. The rectangle along the minimum and maximum spectrum in the chart represents the average fee earned per director at each FHLBank. High variation in pay levels among directors on the board of the FHLBanks of New York, Cincinnati, Chicago, San Francisco and Seattle is attributable to some directors at each of these FHLBanks having served for less than a year.

## Executive Compensation

HERA empowered the Director of FHFA to prohibit compensation that is not reasonable or comparable to compensation paid to executives at similar businesses involving similar duties and responsibilities. To comply with HERA, the FHLBanks must submit to FHFA for review all compensation actions relating to the five most highly compensated officers.

During 2010, the agency reviewed more than 60 requests from the FHLBanks regarding compensation actions involving new hires, internal promotions, termination benefits, salary (merit and equity) adjustments, incentive compensation recommendations, and other nonsalary compensation.

The agency also evaluated whether the FHLBanks' and Office of Finance's incentive compensation plans are consistent with Advisory Bulletin 2009-AB-02, *Principles for Executive Compensation at the Federal Home Loan Banks and the Office of Finance*, issued October 27, 2009.

# Regulatory Guidance

In 2010, FHFA issued more than 30 rules, regulations, and policy guidance documents. Some regulations meet specific statutory requirements, while others are regulations FHFA determined in its judg-

ment are necessary or appropriate to support its mission as regulator and conservator for some or all of the 14 regulated entities.

The following tables summarize the specific proposed, interim, and final rules and regulations, as well as regulatory interpretations and supervisory guidance, the agency issued during 2010. More extensive information about each is on the agency's website at [www.fhfa.gov](http://www.fhfa.gov) and, with respect to the regulations, also has been published in the *Federal Register*.

## Regulations: Enterprises

|          | Rule/Regulation Title             | Reference                               | Date         | Description/Explanation/Comments  |
|----------|-----------------------------------|---|--------------|---|
| Proposed | Duty to serve underserved markets | 75 FR 32099; 12 CFR Part 1282           | June 7       | Implements a provision of the Housing and Economic Recovery Act of 2008 (HERA); this regulation would detail a duty for the Enterprises to serve very low-, low-, and moderate-income families in three underserved markets—manufactured housing, affordable housing preservation, and rural areas.   |
| Final    | Housing goals                     | 75 FR 55892; 12 CFR Parts 1249 and 1282 | September 14 | Establishes mortgage-purchase goals for the low-income housing categories defined by HERA. The Enterprises must meet either market levels of originations or the benchmark levels established in the rule.  |
|          | Portfolio holdings                | 75 FR 81405; 12 CFR Part 1252           | December 28  | HERA required the establishment of standards to govern the Enterprises' retained portfolios. Like the interim final rule that it replaces, the final rule incorporates the portfolio limits established in the Preferred Stock Purchase Agreements between the Enterprises and the U.S. Treasury, which mandate year-over-year reductions in the sizes of the Enterprises' retained portfolios. |

## Regulations: Federal Home Loan Banks

|          | Rule/Regulation Title   | Reference  | Date         | Description/Explanation/Comments  |
|----------|---|--|--------------|---|
| Proposed | Federal Home Loan Bank investments  | 75 FR 23631; 12 CFR Part 1267                        | May 4        | Reorganizes and readopts the Federal Housing Finance Board's rules on Federal Home Loan Bank (FHLBank) investments and incorporates former Finance Board policy that an FHLBank's investments in mortgage-backed securities may not exceed three times the FHLBank's capital. Final rule published May 20, 2011.  |
|          | Information sharing among Federal Home Loan Banks                             | 75 FR 60347; 12 CFR Part 1260                        | September 30 | HERA mandated that all FHLBanks be provided information that enables them to assess potential risk on their joint and several liability on the consolidated obligations of other FHLBanks. The proposed rule would implement that requirement by making the examination reports on each FHLBank available to all FHLBanks   |
|          | Federal Home Loan Bank liabilities  | 75 FR 68534; 12 CFR Part 1270                        | November 8   | Reorganizes and readopts the former Finance Board's rules on the Federal Home Loan Banks' consolidated obligations and other liabilities, primarily to correctly reference the relevant statutory provisions amended by HERA. Final rule published April 4, 2011.   |
|          | Voluntary mergers of Federal Home Loan Banks                                  | 75 FR 72751; 12 CFR Part 1278                        | November 26  | Implements a HERA provision; the proposed rule would establish procedures and requirements for approving voluntary mergers among FHLBanks.  |
|          | Eligibility for membership in Federal Home Loan Banks                         | 75 FR 81145; 12 CFR Part 1263                        | December 27  | Asks for comments on the ways the rules for membership in FHLBanks could be revised to better reflect the statute's emphasis on home mortgage finance.  |
| Final    | Membership requirements for community development financial institutions      | 75 FR 678; 12 CFR Parts 1263 and 1290                | January 5    | Implements a HERA provision; this rule establishes eligibility standards and procedures under which community development financial institutions (CDFIs) that have been certified by the U.S. Treasury's CDFI fund may become members of Federal Home Loan Banks.   |
|          | Housing associates, core mission activities, and standby letters of credit    | 75 FR 8239; 12 CFR Part 1264, 1265, and 1269         | February 24  | Amends and readopts the former Federal Housing Finance Board's rules on these subjects to reflect HERA's transfer of regulatory responsibilities from the Finance Board to FHFA.  |
|          | Directors' eligibility, election, compensation, and expenses                  | 75 FR 17037; 12 CFR Part 1261                        | April 5      | Amends the process for successor FHLBank directors to be chosen after a directorship is redesignated to a different state before the end of a director's term as a result of FHFA's annual designation of FHLBank directorships. The rule requires that in such a case the position must be filled in an election by members located in the new state. Also implements HERA's requirement that directors' compensation and expenses be reasonable, subject to review by FHFA. |
|          | Board of directors of Federal Home Loan Bank System Office of Finance         | 75 FR 23152; 12 CFR Parts 1273 and 1274              | May 3        | Reorganizes the board of directors of the Federal Home Loan Bank System's Office of Finance, which is responsible for issuing the FHLBanks' consolidated obligations. The rule expands the board to include all the FHLBanks' presidents as members and establishes an independent audit committee responsible for ensuring the FHLBanks use common accounting standards to the extent necessary to enable the System's financial reports to be accurate and meaningful.      |
|          | Use of Affordable Housing Program funds for mortgage refinancing              | 75 FR 29877; 12 CFR Part 1291                        | May 28       | Implements a temporary HERA requirement; the final rule readopts with minor revisions the prior interim final rule authorizing Affordable Housing Program (AHP) funds to be used for mortgage refinancings under the Hope for Homeowners and similar programs.  |
|          | Community development loans as collateral for Federal Home Loan Bank advances | 75 FR 76617; 12 CFR Parts 1264, 1266, 1269, and 1272 | December 9   | Defines "community development" for purposes of a HERA provision adding community development loans as a type of eligible collateral for advances to community financial institutions that are members of an FHLBank. The rule also codifies a long-standing policy of the former Finance Board that all secured lending to members (other than derivatives) must meet the regulatory requirements of advances.   |
|          | Housing goals   | 75 FR 81096; 12 CFR Part                             | December 27  | Establishes affordable housing goals for the FHLBanks' purchases of mortgages from their members, similar to the affordable housing goals of the Enterprises. It also sets a threshold level of mortgage purchases below which the goals would not apply to avoid possibly causing FHLBanks with small mortgage purchase programs to abandon them.  |

## Regulations: All Regulated Entities (Enterprises and Federal Home Loan Banks)

|          | Rule/Regulation Title                             | Reference                     | Date        | Description/Explanation/Comments  |
|----------|---|-------------------------------|-------------|---|
| Proposed | Temporary increase of minimum capital requirement | 75 FR 6151; 12 CFR Part 1225  | February 8  | Implements a HERA provision authorizing FHFA to impose a temporarily higher minimum capital requirement on a regulated entity where the entity's risk profile merits it. The final rule was published in the <i>Federal Register</i> March 3, 2011.   |
|          | Conservatorship and receivership                  | 75 FR 39462; 12 CFR Part 1237 | July 9      | Clarifies some of FHFA's powers and responsibilities under the HERA provisions on conservatorship and receivership.   |
| Final    | Reporting fraudulent transactions                 | 75 FR 4255; 12 CFR Part 1233  | January 27  | Implements a HERA provision; the rule requires any of the regulated entities to submit a report upon discovering it has purchased or sold a fraudulent loan or financial instrument or suspects a possible fraud relating to the purchase or sale of a loan or financial instrument.  |
|          | Minority and women inclusion                      | 75 FR 81395; 12 CFR Part 1207 | December 28 | Requires each regulated entity to establish an Office of Minority and Women Inclusion and promote diversity and the inclusion of minorities and women in all activities. FHFA is developing standards and procedures to govern its activities, consistent with the new Dodd-Frank requirements, which also mandated that FHFA and other financial regulatory agencies have Offices of Minority and Women Inclusion. FHFA has hired its executive head of that office and is developing a regulation to govern its activities, consistent with the new requirements. |

## Regulations: Agency Operations

|          | Rule/Regulation Title  | Reference                       | Date        | Description/Explanation/Comments   |
|----------|--|---------------------------------|-------------|--|
| Proposed | Office of the Ombudsman                                      | 75 FR 47495; 12 CFR Part 1213   | August 6    | Establishes an Office of the Ombudsman to consider complaints and appeals from the regulated entities and from persons having business relationships with them regarding matters relating to regulation and supervision of the regulated entities by FHFA. Final rule published February 10, 2011 (76 FR. 7479).   |
|          | Rules of practice and procedure                              | 75 FR 49314; 12 CFR Part 1209   | August 12   | Establishes procedures to govern FHFA's enforcement proceedings and would replace and improve similar rules of the former Federal Housing Finance Board and Office of Federal Housing Enterprise Oversight, which continue to apply until the proposed rules are adopted in final form.                            |
| Interim  | Debt collections   | 75 FR 68956; 12 CFR Part 1208   | November 10 | As required by law for federal agencies, FHFA adopted this interim final regulation to establish procedures for collecting debts owed to the federal government. FHFA also solicited public comments to develop a final regulation on this subject.  |
| Final    | Supplemental standards of ethical conduct for FHFA employees | 75 FR 52607; 5 CFR Chapter LXXX | August 27   | Supplements the <i>Standards of Ethical Conduct for Employees of the Executive Branch</i> by establishing prohibitions on ownership of certain financial instruments and restrictions on outside employment and business activities. The rule was adopted with the concurrence of the Office of Government Ethics. |
|          | Equal Access to Justice Act implementation                   | 75 FR 65214; 12 CFR Part 1203   | October 22  | Establishes procedures for the submission and consideration of applications for awards of fees and other expenses by prevailing parties in adjudications against FHFA.   |



## Regulatory Interpretations: Federal Home Loan Banks

| Rule/Regulation Title  | Reference | Date       | Description/Explanation/Comments   |
|--|-----------|------------|--|
| Effect of foreign government guarantees on unsecured credit exposure                     | 2010-RI-2 | February 3 | An FHLBank that invests in unsecured debt guaranteed by a foreign government may do so up to the regulatory limit applicable to the counterparty rather than to the guaranteeing government if it does not rely on the guarantee in underwriting the debt. |
| Acceptance of Federal Deposit Insurance Corporation guarantee as collateral for advances | 2010-RI-3 | August 23  | An FHLBank may accept a Federal Deposit Insurance Corporation corporate guarantee as security for advances held by a member in receivership and may release its lien on the collateral that had been securing those advances.                              |
| Bridge depository institutions as members of Home Loan Banks                             | 2010-RI-4 | August 23  | An FHLBank may treat a bridge depository institution as continuing the membership of a failed member.  |
| Bank investments in unsecured debt of Fannie Mae and Freddie Mac                         | 2010-RI-5 | November 9 | To calculate the maximum amount of unsecured credit that an FHLBank may extend to an Enterprise, the FHLBank may consider the financial support provided by the U.S. Treasury to the Enterprises in lieu of capital.                                       |

## Regulatory Interpretations: Enterprises

| Rule/Regulation Title  | Reference | Date       | Description/Explanation/Comments   |
|--|-----------|------------|--|
| Effect of changes in accounting standards on Enterprise statutory minimum capital requirements | 2010-RI-1 | January 12 | Changes in accounting standards, requiring the Enterprises to treat formerly off-balance sheet mortgage-backed securities as on-balance sheet, do not change the statutory capital requirements for assets held in portfolio as compared with those sold to investors through securitization trusts. |

## Policy Guidance: Federal Home Loan Banks

| Policy Subject                        | Reference  | Date       | Description/Explanation/Comments  |
|---------------------------------------|------------|------------|---|
| Nontraditional and subprime mortgages | 2010-AB-01 | April 6    | Answers various specific questions raised by earlier guidance (2008-AB-02) advising FHLBanks not to buy mortgages (or MBS backed by mortgages) not complying with the banking agencies' joint guidance on nontraditional and subprime mortgages.  |
| Strategic plans                       | 2010-AB-02 | November 9 | Sets forth principles the Division of Federal Home Loan Bank Regulation will use in evaluating the FHLBanks' strategic plans; reminds the FHLBanks of the regulatory requirement (12 CFR 917.5) that strategic plans set quantitative performance goals with respect to multifamily, small business, small farm, and small agribusiness lending to community financial institution members. |

## Policy Guidance: All Regulated Entities

|          | Policy Subject                 | Reference   | Date      | Description/Explanation/Comments   |
|----------|--------------------------------|-------------|-----------|--|
| Proposed | Private transfer fee covenants | 75 FR 49932 | August 16 | Would have advised the regulated entities not to purchase or acquire as collateral any mortgages or MBS where the underlying property is encumbered by private transfer fee covenants. (FHFA did not adopt this guidance in final form. Instead, it has proposed a regulation that would be legally binding, but narrower in scope, 76 FR 6702, February 8, 2011.) |

# Accounting

**T**he two primary accounting standards-setting bodies, the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB), are working on a joint program to converge their accounting standards.

The convergence program began in 2002 with a special memorandum known as the Norwalk Agreement and over the past several years, the two boards have worked diligently to harmonize Generally Accepted Accounting Principles in the United States (GAAP) with International Financial Reporting Standards to create one global set of high-quality accounting standards.

As a result, GAAP has changed significantly over the past few years, and more changes are likely in the coming years. Progress on the FASB and IASB convergence program will be an important consideration in a major decision expected from the Securities and Exchange Commission in late 2011 on whether to allow or require U.S. public companies to use international reporting standards in the U.S. domestic market.

Since 2005, as part of their convergence program, the FASB and IASB have been working on a project to improve, converge, and simplify accounting for financial instruments. In 2009, in response to the global financial crisis and recommendations by G20<sup>3</sup> leaders and financial market participants, the two boards accelerated the accounting for financial instruments project timeline to complete their work in 2011.

Nearly all assets and liabilities of the housing government-sponsored enterprises (GSEs) are financial in nature, so proposed accounting changes for financial instruments could have significant effects on their financial statements. FHFA, Fannie Mae, Freddie Mac, and the FHLBank System each submitted comments on FASB's May 2010 proposal for the financial instruments project. FHFA also participated in a FASB round-

table discussion in October 2010 to present FHFA's views on the proposal.

The accounting for financial instruments project will provide new accounting requirements for financial instruments in the following areas:

- Classification and measurement
- Credit impairment
- Hedge accounting
- Balance sheet offsetting

## Classification and Measurement

Under both current GAAP and the international reporting standards, financial instruments are classified and reported using multiple measurement attributes depending on factors including:

- the legal form of the financial instrument (such as loans versus securities);
- management intent for holding the financial instrument (such as investments or loans held for trading, investment, or collection or payment of contractual cash flows); or
- the type of reporting entity (such as investment companies versus other financial institutions).

These measurement attributes may include fair value or market value, historical cost or amortized cost, a prescribed computation, or some combination of these.

To simplify accounting guidance, the two boards proposed to classify and measure financial instruments based on the cash flow characteristics of the financial instruments and the entity's business strategy for holding them. Using these criteria, IASB proposed that both fair value and amortized cost be primary measurement attributes for financial instruments. FASB permitted only fair value as the primary measurement attribute for financial instruments.

<sup>3</sup> The G-20 is a coalition of 19 countries plus the European Union. For more information, see the online lexicon of the *Financial Times* at <http://lexicon.ft.com/Term?term=g20>.

If FASB's proposal had been approved as drafted, it would have significantly expanded fair value reporting on balance sheets, which would have led to greater volatility in comprehensive income for financial institutions, including the housing GSEs.

In October 2010, IASB issued its final guidance on classification and measurement, which essentially retained the mixed-attribute model as proposed in the exposure draft. The FASB fair value-oriented proposal had been opposed by nearly all the respondents who provided comments on its exposure draft.

***Either proposal could have significant financial and operational effects on the housing GSEs by making it easier for the housing GSEs to apply hedge accounting that reflects their risk management practices, which would reduce income statement volatility.***

In November 2010, FASB returned to its deliberations on the accounting for financial instruments project with a plan to issue the final standard by the end of 2011<sup>4</sup>.

### **Credit Impairment**

Existing GAAP and international reporting standards guidance on loan credit impairment is based on an incurred loss model, which means credit losses are recognized only after the occurrence of an adverse event that indicates an entity has probably suffered credit losses. The incurred loss model has been criticized for not promptly recognizing credit losses.

To address this criticism, in 2010 FASB and IASB each published for comment its own respective proposal. Subsequently, in January 2011 the two boards also issued a joint proposal that included new credit impairment models based on expected losses. Under the proposed expected loss models, entities would recognize credit losses they expect to incur in the future using their own reasonable and supportable forecasts.

Although there are differences between the various proposed expected loss models, compared to the incurred loss model, the expected loss models would accelerate the recognition of credit losses since entities are no longer required to experience an adverse event to recognize credit losses.

However, because several key aspects of the proposed models have not been fully developed, it is difficult for FHFA to reliably assess the magnitude of the proposed models' impact on its regulated entities.

In April 2011, FHFA and its regulated entities each submitted to the FASB comment letters on the joint proposal, which had included a request for comment on all of the proposed expected loss models. The two boards are currently discussing the comments received and hope to issue a final converged standard on credit impairment later in 2011.

### **Hedge Accounting**

The two boards took different approaches to simplifying the most complex area in accounting for financial instruments—hedge accounting.

FASB proposed limited revisions to its rules by relaxing some of the most stringent requirements to qualify and maintain hedge accounting. IASB comprehensively reviewed its hedge accounting requirements with the objective of aligning hedge accounting more closely with risk management practices and expanding the population of assets and liabilities eligible for hedge accounting.

<sup>4</sup> In January 2011, during additional discussion on its draft, FASB appeared to back away from its original proposal that fair value, instead of amortized cost, be the primary measurement attribute for instruments that resulted from a lending relationship with a customer (such as loans).

In light of this vast difference in scope of the respective hedge accounting proposals, FASB decided in February 2011 to issue the IASB hedge accounting proposal in the United States to solicit views from its American constituents.

Either proposal could have significant financial and operational effects on the housing GSEs by making it easier for the housing GSEs to apply hedge accounting that reflects their risk management practices, which would reduce income statement volatility.

### Balance Sheet Offsetting

To offset financial assets and liabilities means to present them as a single net amount on the balance sheet. GAAP and the international reporting standards have different requirements for balance sheet offsetting, and this is the single largest source of differences between GAAP and international reporting standards balance sheets for financial institutions.

The Financial Stability Board<sup>5</sup> and users of the financial statements and have urged the two boards to converge their guidance in this area.

In January 2011, both boards issued exposure drafts outlining a consistent set of qualification criteria for balance sheet offsetting. Under the proposal, financial assets and financial liabilities would be required to be offset on the balance sheet only if both of the following criteria are met:

1. The entity has an unconditional and legally enforceable right to set off the financial assets and financial liabilities; and
2. The entity intends either to settle the financial assets and financial liabilities on a net basis or to realize the financial assets and settle the financial liabilities simultaneously.

The proposal would also require disclosures of information about balance sheet offsetting and related arrangements (such as collateral agreements) to help financial statement users understand the financial effect of those arrangements.

For U.S. entities, the proposal represents a change from current guidance, especially for entities such as the housing GSEs with large derivative positions. The proposal would eliminate several existing industry-specific practices and the current GAAP exceptions that permit entities to net certain derivative and repurchase agreement assets and liabilities.

In addition, if the qualifying criteria for net presentation are met, balance sheet offsetting would be required, not elected as an option as currently allowed by GAAP. These changes would affect the calculation of regulatory capital and related ratios, such as the leverage ratio as assets and liabilities on the balance sheet would be grossed instead of netted, as allowed by current GAAP.

In April 2011, FHFA submitted a comment letter to the FASB to express its support for the balance sheet offsetting proposal. FASB and IASB plan to redeliberate the proposal and issue a final standard in the third quarter of 2011 and issue a final standard in the second quarter of 2011.

## The Challenge

The expansive scope of the accounting for financial instruments project and the speed the boards are working at to amend their current requirements present real challenges for accountants, auditors, investors, and prudential regulators.

FHFA will continue to monitor the project's progress and communicate with FASB, the regulated entities, and other prudential regulators. As conservator of Fannie Mae and Freddie Mac, FHFA is particularly focused on accounting changes that may affect the Enterprises' draws on the U.S. Treasury and will keep government policy makers fully informed on this issue.

<sup>5</sup> The Financial Stability Board was formed in April 2009 following the G-20 London financial summit. The G-20 is a coalition of 19 countries plus the European Union. For more information on the Financial Stability Board, please see [www.financialstability.org](http://www.financialstability.org)







# Housing Mission and Goals

## Enterprise Affordable Housing Goals

**T**he Housing and Economic Recovery Act of 2008 (HERA) carried over to 2009 the structure of the Enterprises' housing goals established by the Department of Housing and Urban Development (HUD) for 2005 through 2008, but the legislation modified that structure significantly for 2010 and later years. HERA now requires four single-family goals, one single-family subgoal, one multifamily special affordable goal, and one multifamily subgoal.

For single-family purchase money mortgages, there are goals based on three types of families—those who are classified as low-income, very low-income, and those residing in low-income areas. The statute also requires a low-income, single-family refinance goal, as well as a multifamily special affordable goal for low-income families and a subgoal for very low-income families.

On February 26, 2010, FHFA published a proposed rule establishing housing goals for calendar years 2010-11. FHFA received 29 comments on the proposed rule, including comments from the Enterprises. After review of the comments, FHFA published a final rule September 14, 2010.<sup>6</sup> Figure 28 shows the benchmarks FHFA established and preliminary performance figures against those benchmarks from data provided by the Enterprises in early 2011.

One new aspect of the single-family housing goals is that they were set at benchmark levels in the final rule but also compare performance with the corresponding figures on the shares of conventional conforming mortgages in the primary mortgage market in each year. This “look back” procedure is based on FHFA’s analysis of data on mortgage originations as reported

by lenders in accordance with the Home Mortgage Disclosure Act (HMDA).

In other words, if an Enterprise’s performance on a goal falls short of the benchmark, it will still be deemed to have met the goal if its performance equals or exceeds the corresponding share of mortgages originated in the primary mortgage market, as based on FHFA’s analysis of HMDA data.

However, the analysis for 2010 will not be available until the 2010 HMDA data is released in September 2011. This new procedure will be relevant for all of the single-family goals where performance fell short of the benchmark—four of five goals for Fannie Mae, and two of five goals for Freddie Mac.

Both Enterprises reported that their performance exceeded their low-income multifamily goals and their very low-income multifamily subgoals in 2010 (see Figure 28).

HERA also requires the Enterprises to report on their financing of low-income units in multifamily properties of a limited size, measured in terms of the number of units in a property or the amount of the loan. In the September 14, 2010, final rule, FHFA defined multifamily properties of a limited size as those containing 5 to 50 units. In 2010, Fannie Mae financed 12,460 low-income rental units, and Freddie Mac financed 459 low-income rental units.

### Duty to Serve Underserved Markets

HERA also established a duty for the Enterprises to serve very low-, low-, and moderate-income families in three underserved markets: manufactured housing, affordable housing preservation, and rural areas. It required FHFA to establish a regulation outlining a method for evaluating and rating whether and how well the Enterprises are complying with their duty to serve these underserved markets.

FHFA announced an Advance Notice of Proposed Rulemaking in August 2009 and then published a proposed rule in June 2010.<sup>7</sup> The proposed rule identifies the types of Enterprise transactions and activities that count toward the duty to serve. For example, only

<sup>6</sup> 75 Fed. Reg. 55892 (Sept. 14, 2010).

<sup>7</sup> 74 Fed. Reg. 38572 (Aug. 4, 2009); 75 Fed. Reg. 32099 (June 7, 2010).

Figure 28. Enterprises' Goals and Performance in 2010

|  | 2010 Goals/ Subgoals | 2010 Performance <sup>1</sup> |             |
|--|----------------------|-------------------------------|-------------|
| CATEGORY   |                      | FANNIE MAE                    | FREDDIE MAC |
| <b>Single-Family Goals<sup>2</sup></b>                     |                      |                               |             |
| Low-income home purchase goal benchmark                    | 27%                  | 25.1%                         | 27.8%       |
| Very low-income home purchase goal benchmark               | 8%                   | 7.2%                          | 8.4%        |
| Low-income areas home purchase subgoal benchmark           | 13%                  | 12.4%                         | 10.8%       |
| Low-income areas home purchase goal benchmark <sup>3</sup> | 24%                  | 24.0%                         | 23.8%       |
| Low-income refinance goal benchmark                        | 21%                  | 20.9%                         | 22.0%       |
| <b>Multifamily Goals</b>                                   |                      |                               |             |
| Low-income multifamily goals (units):                      |                      |                               |             |
| Fannie Mae   | 177,750              | 212,768                       |             |
| Freddie Mac  | 161,250              |                               | 162,198     |
| <b>Very low-income multifamily subgoals (units):</b>       |                      |                               |             |
| Fannie Mae   | 42,750               | 53,184                        |             |
| Freddie Mac  | 21,000               |                               | 30,059      |

<sup>1</sup> Performance as reported by the Enterprises in March 2011 annual housing activities reports. Official performance on all goals will be determined by FHFA after review of Enterprise loan-level data. Low-income refinance goal for 2010 included credit for qualifying permanent loan modifications.

<sup>2</sup> Minimum percentage of all dwelling units financed by acquisitions of home purchase or refinance mortgages on owner-occupied properties acquired by each Enterprise.

<sup>3</sup> Includes mortgages to borrowers with incomes no greater than area median income in federally declared disaster areas.

Note: For the single-family goals, if an Enterprise's performance falls short of the benchmark, its performance will also be measured against the corresponding share of mortgages originated in the primary mortgage market, as determined by FHFA's analysis of 2010 Home Mortgage Disclosure Act data later in the year.

manufactured homes titled as real property would receive consideration toward the duty to serve the manufactured housing market, and the Neighborhood Stabilization Program would be added to the list of eligible programs in the affordable housing preservation market.

The proposed rule establishes a process for FHFA to evaluate and rate each Enterprise for compliance and requires each Enterprise to submit to FHFA for review an underserved markets plan describing the steps it would take to serve each market. In its plan, each Enterprise must establish benchmarks and objectives for FHFA to use to evaluate and rate actual performance in each underserved market.

FHFA would evaluate and rate each Enterprise on the development of loan products and more flexible underwriting guidelines, volume of loans purchased,

extent of outreach to market participants, and amount of investments and grants. Each Enterprise would receive an overall rating of *in compliance* or *noncompliance* in each underserved market. In addition, the proposed rule requires each Enterprise to report periodically to FHFA on its performance. FHFA had received 3,921 comments when the comment period for the proposed rule ended July 22, 2010.

## FHLBanks Affordable Housing Goals

On May 28, 2010, FHFA published a proposed rule establishing housing goals for the FHLBanks for 2011 and beyond. FHFA received nine comments on the proposed rules. FHFA published a final rule on December 27, 2010.

The purpose of the housing goals is to encourage the FHLBanks to serve very low- and low-income families and families residing in low-income areas. The FHLBanks' housing goals performance will be based on single-family whole loans purchased through their Acquired Member Assets programs.

The housing goals for the FHLBanks are consistent with the single-family housing goals for the Enterprises, according to the statutory intent of HERA, while taking into account unique characteristics of the FHLBanks. To be subject to housing goals, the total unpaid principal balance of an FHLBank's mortgage purchases must exceed \$2.5 billion in a given year. This volume threshold will ensure an FHLBank has significant mortgage purchase volume before housing goals apply to it. In 2010, no FHLBanks met this threshold.

### **Targeted Affordable Housing and Community Investment Activities of the FHLBanks**

The FHLBanks administer three targeted housing and community investment programs: the Affordable Housing Program (AHP), the Community Investment Program (CIP), and the Community Investment Cash Advances (CICA) program. Using these, FHLBanks finance targeted community investment projects and expand homeownership and rental opportunities for very low-income households (50 percent of area median income or below), low-or moderate-income households (80 percent of area median income) and middle-income households (115 percent of area median income).

### **AHP Regulatory Initiatives**

In 2010, FHFA approved and implemented initiatives to enhance regulation of AHP, CIP, and CICA programs. The initiatives included:

**FHLBank Mortgage Refinancing Authority**—HERA amended the Federal Home Loan Bank Act, adding a provision requiring FHFA to allow FHLBanks to use subsidy funds from their AHP homeownership set-aside programs to refinance low- and moderate-income households' first mortgage loans on primary residences.

On May 28, 2010, FHFA published a final rule codifying FHFA's interim final rule of August 4, 2009, that allows an FHLBank to use up to two-thirds of its homeownership set-aside allocation (up to 35 percent of its statutory contribution) to assist households that qualify for refinancing under federal, state, or local government eligible targeted refinancing programs when additional subsidy is needed to bring down the household's mortgage debt-to-income ratio to an affordable level or to bring down the mortgage principal to meet a maximum loan-to-value ratio.

The final rule added administrative flexibility to the program, including giving eligible households more time to submit their applications for refinancing to, and be qualified by, eligible targeted refinancing programs to receive AHP assistance before the statutory authority for this program expired.

**AHP, CIP, and CICA Program Data Integrity Review**—In 2010, FHFA conducted on-site data integrity reviews at six FHLBanks to validate the 2009 AHP, CIP, and CICA program data submissions to FHFA and clarify reporting requirements in the agency's data reporting manual.

## **Affordable Housing Program**

The FHLBank Act requires each of the 12 FHLBanks to establish an AHP to be used to finance construction, purchase, or rehabilitation of housing addressing a wide range of needs. AHP funds help subsidize the cost of owner-occupied housing targeted to households with incomes at or below 80 percent of area median income and rental housing that has at least 20 percent of the units occupied by and affordable for households with incomes at or below 50 percent of area median income. The subsidy may be in the form of a grant or a subsidized interest rate on an advance from an FHLBank to a member.

The FHLBank Act requires each FHLBank to contribute annually at least 10 percent of its previous year's net earnings to AHP, with a minimum annual combined contribution by the 12 FHLBanks of \$100 million. From 1990 to 2010, the FHLBanks contributed more than \$3.79 billion to AHP. In 2010, the FHLBanks set

aside \$229 million in AHP funds. The FHLBanks will commit these funds plus funds deobligated from previously approved projects in 2011.

Each FHLBank administers both a competitive application program and at least one homeownership set-aside program. An FHLBank may set aside annually up to the greater of \$4.5 million, or 35 percent of the FHLBank's annual statutory AHP contribution to assist low- or moderate-income households in purchasing or rehabilitating homes, provided that at least one-third of the FHLBank's aggregate annual set-aside contribution goes to first-time homebuyers. Homeownership set-aside programs are voluntary. In 2010, five FHLBanks also offered refinancing set-aside programs.

### **AHP Competitive Application Program**

Under the competitive application program, each FHLBank's member financial institutions submit applications to the FHLBank on behalf of one or more sponsors of eligible housing projects. Projects must meet certain statutory and regulatory requirements to be eligible for AHP funding under this program.

### **AHP Homeownership Set-Aside Program**

An FHLBank may establish one or more AHP homeownership set-aside programs. Members obtain the set-aside funds from the FHLBank and use them for grants of up to \$15,000 to eligible households. In 2010, a majority of the set-aside disbursements paid for down payment and closing cost assistance.

### **Community Investment Program and Community Investment Cash Advances Programs**

CIP and other CICA programs offer funding, including low-cost, long-term funding, for members and housing associates to use for financing community investment projects for targeted beneficiaries or targeted income levels. Members may use CICA funds for loan origina-

tions, loan participations, revolving loan funds, and purchases of low-income housing tax credits and mortgage securities.

In 2010, the FHLBanks disbursed more than \$2.8 billion in CIP and CICA funds for community investment and mixed-use projects and approximately \$1.7 billion in CIP advances for housing. To help during the mortgage crisis, some FHLBanks made special CIP advances available to members to assist households facing mortgage delinquency or foreclosure to restructure or refinance their mortgages.

## **FHFA Outreach**

In 2010, FHFA continued to build on its outreach efforts by sharing information about mortgage markets, the nation's housing finance system, and regulatory issues with other federal agencies and stakeholders. FHFA participated in six regional public forms hosted by FHLBanks and organized a conference with national stakeholders and other federal agencies in Washington, D.C. These events laid the foundation for FHFA plans to revise CICA program regulations in 2011.

In December 2010, FHFA hosted its second annual meeting of FHLBank advisory council chairmen and co-chairs. Advisory council leaders from all 12 FHLBanks shared insights and regional perspectives on proposed FHFA regulatory initiatives, including revisions to CICA, and on the topics of sustainable mortgages and multifamily housing.

# FHFA Research and Publications

In 2010, FHFA focused its research plans and activities on studies and reports required by statute and on analyzing other topics that supported the agency in achieving its strategic goals.

FHFA placed a priority in 2010 on research to prepare reports to Congress required by the Housing and Economic Recovery Act of 2008 (HERA) and to understand trends in house prices, housing market conditions, and mortgage lending activity. In addition, FHFA analyzed the risk and capital adequacy of the housing government-sponsored enterprises and prepared research publications aimed at improving public understanding of the mortgage finance system.

FHFA published reports and papers and posted information on its website ([www.fhfa.gov](http://www.fhfa.gov)). FHFA researchers also presented papers and led discussions at professional and industry conferences on topics related to housing finance and regulation of the housing government-sponsored enterprises.

## Reports to Congress

In 2010, FHFA submitted the following three reports to Congress, as required by HERA:

1. HERA requires FHFA to conduct an on-going study of the guarantee fees charged by Fannie Mae and Freddie Mac and to submit annual reports to Congress, based on aggregated data collected from the Enterprises, regarding the amount of such fees and the criteria used by the Enterprises to determine them.

In July, FHFA submitted its second annual report in fulfillment of that requirement, *Fannie Mae and Freddie Mac Single-Family Guarantee Fees in 2008 and 2009*, focusing on fees charged by the Enterprises for

## FHFA's Strategic Goals

- 1) Enhance supervision to ensure that Fannie Mae, Freddie Mac and the Federal Home Loan Banks operate in a safe and sound manner, are adequately capitalized, and comply with legal requirements.
- 2) Promote homeownership and affordable housing and support an efficient secondary mortgage market.
- 3) Through conservatorship, preserve and conserve the assets and property of Fannie Mae and Freddie Mac, and enhance their abilities to fulfill their mission.

guaranteeing conventional single-family mortgages—loans that are not insured or guaranteed by the federal government and which finance properties with four or fewer residential units.

2. HERA requires FHFA to submit annually to Congress a report on the housing activities of Fannie Mae and Freddie Mac. FHFA submitted its second such report in October. That report provided information regarding Enterprise housing goal performance in 2009 as well as other aspects of FHFA and Enterprise activities.
3. HERA requires FHFA to submit annually to Congress a report on the collateral pledged to the Federal Home Loan Banks to secure advances. In August, FHFA released its second *Report on Collateral Securing Advances at the Federal Home Loan Banks*, containing the results of FHFA's 2010 Collateral Data Survey.

## House Price Index and Related Research

As in prior years, FHFA aimed to increase the scope of geographic coverage for the House Price Index (HPI) in 2010. FHFA began the year by evaluating the feasibility of producing an index for Puerto Rico as a response to increasingly frequent requests for house price data for the island.

After determining that such a metric could be produced, FHFA released a set of developmental indexes for Puerto Rico in May. FHFA published a total of three



price indexes, including an “all-transactions” index estimated using sales prices and appraisal values and two “purchase-only” indexes estimated using only sales price data. Both a seasonally adjusted and an unadjusted version of the purchase-only index were released. For all three series, FHFA released index values for periods extending back to the first quarter of 1995.

***In addition to developing the Puerto Rico house price indexes, FHFA’s Office of Policy Analysis and Research engaged in other HPI-related research during 2010.***

FHFA built the Puerto Rico indexes using the same repeat transactions methodology that underlies FHFA’s other indexes, but the data used came from a wider set of sources. To increase the sample size of transacting properties, the estimation dataset incorporated transactions data from not just Fannie Mae and Freddie Mac, but also the Federal Housing Administration (FHA) and the Federal Home Loan Bank of New York. The latter two sources were important additions, because sample sizes for the territory for the Enterprise datasets were relatively small.

Although the Puerto Rico price indexes are considered developmental, FHFA released updates to them (incorporating index data for a new period and revising prior period estimates) later in 2010. As with the initial set of indexes, FHFA also released the revised indexes to the public as downloadable files on the agency website ([www.fhfa.gov](http://www.fhfa.gov)).

### **Highlights**

In addition to developing the Puerto Rico house price indexes, FHFA’s Office of Policy Analysis and Research engaged in other HPI-related research during 2010. In connection with the release of the quarterly HPI, FHFA continued to publish its series of articles called “Highlights” that describe methodological issues in

estimating price trends and discussed price developments within certain market segments.

For example, a “Highlights” article published in February addressed an issue related to data transformation, discussing a new software tool that FHFA began using to format and geocode property addresses (an important step in the estimation of the index). That article detailed the testing performed to validate the new tool’s results. It also compared the index estimates produced with the new tool against those that would have been produced with the old software.

In August, FHFA evaluated recent price trends for condominiums and cooperatives in a Highlights article. That research aimed to compare FHFA’s standard price indexes—which exclude data from condominium or cooperative properties—against price indexes derived exclusively from data for condominiums and cooperatives. For three large cities—Washington, D.C., New York, and Denver—the article found significant differences between the two indexes. For example, in the recent housing bust price declines were significantly greater for condominiums and cooperatives in Washington, D.C., and Denver. The opposite was true for New York: price declines were greater for single-family dwellings.

Another “Highlights” piece released in December compared price patterns for Enterprise-financed homes against those for homes with other types of financing. The piece updated prior research FHFA had done to evaluate the variations in price trends by financing type. The article found that, in California and other states hard-hit by the housing bust, price declines had been less for homes with Enterprise-financed mortgages.

### **Research Papers**

FHFA also continued to release stand-alone research publications on issues related to house prices and price trends. Two papers—an agency research paper and a staff working paper—discussed novel methodologies for estimating national and local median and average house prices. FHFA must use such statistics in setting conforming loan limits each year—a factor that motivated the research. The approaches identified in the two papers both used a dataset of pooled transactions



records and mortgage-level information assembled from the Enterprises, FHA, and private data vendors.

The research paper, *An Approach for Calculating Reliable State and National House Price Statistics*, published in September 2010, described a relatively sophisticated approach to extrapolating summary statistics from the data. The approach, which made use of repeat-transactions price indexes for estimating changes in market-wide price statistics, minimized noise caused by shifts in transaction volumes for homes in different parts of the price spectrum. That problem, which was a significant theoretical concern, had not been addressed in the working paper, *Estimating Median House Prices*, published in February.

Revisions to FHFA's house price index elicit frequent inquiries from the public. In February 2010, FHFA published *Revisions to FHFA's House Price Index in the Recent National House Price Boom and Bust*, a research paper that examined the size and direction of those revisions.

The paper studied index revisions in the current housing cycle, discovering two principal empirical phenomena. First, revisions of the index tended to increase estimated quarterly appreciation rates when prices were rising during the boom and to reduce them after prices began to decline in the bust. Second, the paper found that changes in the index level tended to be moderating in nature. During the recent bust, the overall level of the index generally rose with revisions, even as measured price declines in the most recent periods became more severe. In other words, the overall size of the cyclical bust (and earlier boom) had tended to shrink as repeat-transaction index values were revised.

## Other Research Products

FHFA published several other research products in 2010. A research paper, *Updated Assumptions Used to Estimate Single-Family Mortgages Originated and Outstanding, 1990-2009*, released in May, updated the methodology presented in *Single-Family Mortgages Originated and Outstanding: 1990-2004*, originally released in July 2005.

In September, FHFA released *Data on the Risk Characteristics and Performance of Single-Family Mortgages Originated in 2001-2008 and Financed in the Secondary Market*. That work summarized information on loans originated in that period and subsequently acquired by Fannie Mae and Freddie Mac or financed through the issuance of private-label mort-

***During the recent bust, the overall level of the index generally rose with revisions, even as measured price declines in the most recent periods became more severe. In other words, the overall size of the cyclical bust (and earlier boom) had tended to shrink as repeat-transaction index values were revised.***

gage-backed and asset-backed securities. The release focused on conventional loans—those without government insurance or a government guarantee.

A second publication released in September, *Market Estimation Model for the 2010 and 2011 Enterprise Single-Family Housing Goals*, discussed the forecast models the agency used in establishing housing goal benchmarks for 2010 and 2011.

FHFA published one mortgage market note and twice updated mortgage market notes published in the previous year. In January 2010, FHFA updated a note, *U.S. Treasury Support for Fannie Mae and Freddie Mac*, first published in December 2008 and twice updated in

2009, which outlines the various facilities introduced by the Treasury Department to support the Enterprises in conservatorship.

In February, FHFA released a mortgage market note, *The Housing Goals of Fannie Mae and Freddie Mac in the Context of the Mortgage Market: 1996-2009*. That note summarized the regulatory process used to set the affordable housing goals and compares them to anticipated and actual mortgage market activity and the Enterprises' performance.

In March, FHFA released a second update to a mortgage market note, *Federal Home Loan Bank Capital*, first published in July 2009. That note provided information on the different measures of capital, the capital requirements, the capital classifications, and data for each FHLBank and for the system as a whole as of year-end 2005 through 2009.

Also in March, FHFA released a staff working paper, *Automatic Recapitalization Alternatives*, that examined proposals to address the effects of current capital regulation of systemically important financial institutions and the spillovers associated with distress at such institutions. The paper examined two proposed mechanisms—contingent capital notes and capital insurance—that would automatically recapitalize such institutions during periods of distress.

As in past years, FHFA also reported a Monthly Interest Rate Survey of purchase-money mortgages and made public its estimates of single-family mortgages originated and outstanding and the Enterprises' combined share of residential mortgage debt outstanding.

# FHFA Operations and Performance

(Note: annual performance measurement is done on a fiscal year basis, so this chapter will refer to Fiscal Year (FY) 2010 throughout.)

During FY 2010, FHFA continued to play a crucial role in the federal government's efforts to respond to the crisis in the nation's housing and housing finance markets. FHFA continued to work with the Administration and Congress to respond to the problems for borrowers, communities, and investors posed by seriously delinquent mortgages, to explore alternatives for restructuring the housing finance system, and to find long-term solutions to the many challenges facing the housing market.

The regulated entities continued to support the housing finance system despite the condition of the mortgage market. In FY 2010, the Enterprises purchased 60 percent of single-family mortgage originations, which was down from 65 percent in FY 2009, but still the dominant share of the market. The Federal Home Loan Banks (FHLBanks) continued to provide financing to large and small member institutions through advances.

## Performance and Program Assessment

On November 15, 2010, FHFA published its annual *Performance and Accountability Report*, detailing the agency's performance during FY 2010. FHFA submitted its report to the Association of Government Accountants (AGA) for consideration for the Certificate for Excellence in Accountability Reporting (CEAR) for FY 2010.

The CEAR award recognizes the highest standard of federal fiscal accountability reporting, and only agencies with unqualified opinions on their financial reports from an independent auditor are eligible to be considered.

In early April 2011, AGA notified FHFA that its 2010 *Performance and Accountability Report* had been honored with a CEAR award for the third year in a row. In 2010, in addition to receiving the CEAR award for the 2009 *Performance and Accountability Report*, the association presented FHFA with a second honor. AGA also awarded "Best in Class, Candid-Forward Discussion Looking," for the agency's plain and clear description of future challenges facing the agency in the 2009 performance report.

### Performance Goals

In FY 2010, FHFA met or exceeded 12 (46 percent) of its performance goals and did not meet 14 (54 percent). FHFA fully or mostly achieved 14 of the goals during the performance year, but not in the timeframes set by the agency's Annual Performance Plan. Others were not met because of the uncontrollable effects of external market events.

### FISMA

During FY 2010, in compliance with the Federal Information Security Management Act (FISMA), FHFA reviewed its information security program through its internal audit function and, as required, reported the results to the Office of Management and Budget (OMB). The FY 2010 FISMA review concluded that FHFA had an effective information security program.

However, the review did reveal some weaknesses pertaining to monitoring of contractor systems, control and disposal of storage media for peripheral equipment such as copiers, noncompliance of the organizational structure of FHFA's information security program with FISMA, lack of completion of updates to the FHFA information security policy and related security procedures, and vulnerabilities identified by network scans.

FHFA has addressed all of those findings and efforts to remediate the weaknesses are underway. None of the weaknesses were classified as significant deficiencies.

### Quarterly Performance Monitoring

During FY 2010, FHFA's Executive Committee on Internal Controls met quarterly to oversee internal controls and recommend improvements to the Acting Director on the effectiveness of FHFA's internal con-

trols. The executive committee completed its annual OMB Circular A-123 review of internal controls over financial reporting, effectiveness of operations, and compliance with laws and regulations.

The assessment teams established by the committee concluded with reasonable assurance that internal controls over financial reporting were operating effectively and no material weaknesses were found in the design or operation of the internal controls over financial reporting during FY 2010.

### Performance Highlights

During FY 2010, FHFA made significant accomplishments. Highlights of FHFA's FY 2010 key activities and accomplishments were as follows:

- Conducted continuous supervision activities and targeted reviews at Fannie Mae and Freddie Mac.
- Examined all 12 FHLBanks and the Office of Finance for safety and soundness.
- Completed all Affordable Housing Program examinations and on-site visitations scheduled during FY 2010.
- Published a monthly *Foreclosure Prevention and Refinance Report* publicizing the progress of the Making Home Affordable program, promoting transparency in the Enterprises' foreclosure prevention activities, and providing data on the Enterprises' mortgage refinance and loan modification activities.
- Published a monthly *Federal Property Managers Report* detailing the number and types of loan modifications and the number of foreclosures during the reporting period.
- Published two working papers, six research papers, and three mortgage market notes.
- Produced a House Price Index for Puerto Rico and refined the process for estimating mean and median home prices at both the state and national level.

- Promulgated a number of rules, regulations, and policy guidance to improve governance of the 14 regulated entities and FHFA agency operations. For a complete list of FHFA's regulatory actions, see pages 87 through 92.

## Financial Operations

HERA authorizes FHFA to collect annual assessments from its regulated entities to pay its costs and expenses and maintain a working capital fund. Under HERA, annual assessments are levied against the Enterprises and the FHLBanks to cover the cost and expenses of the agency's operations for supervision of the regulated entities.

In FY 2010, FHFA had \$155.6 million in total budget resources, composed of \$143 million in assessments, \$9.7 million in unobligated balance brought forward from FY 2009, and \$2.7 million in recoveries of prior year unpaid obligations. Obligations incurred increased \$16.6 million to \$132.8 million in FY 2010. Gross outlays increased \$5.5 million to \$122.9 million in FY 2010.

### Federal Management System and Strategy

HERA requires FHFA to implement and maintain financial management systems that comply substantially with federal financial management systems requirements, applicable federal accounting standards, and the U.S. Government General Ledger at the transaction level.

FHFA uses the Treasury Department's Bureau of the Public Debt for its accounting services and financial management system. FHFA also uses the National Finance Center, a service provider within the Department of Agriculture, for its payroll and personnel processing.

### Unqualified Audit Opinions in FY 2010

For FY 2010, FHFA received an unqualified (clean) audit opinion on its annual financial statements from the Government Accountability Office, which identified no material weaknesses in internal controls or instances of noncompliance with laws or regulations.



# Historical Data Tables

## Historical Data Tables • Contents

|  |     |  |     |
|--|-----|--|-----|
| Table 1 • Fannie Mae Mortgage Purchases .....  | 109 | Table 11 • Freddie Mac MBS Issuances .....   | 130 |
| Table 1a • Fannie Mae Mortgage Purchases<br>Detail by Type of Loan .....   | 110 | Table 12 • Freddie Mac Earnings .....  | 131 |
| Table 1b • Fannie Mae Purchases of<br>Mortgage-Related Securities – Part 1 .....                                     | 111 | Table 13 • Freddie Mac Balance Sheet.....  | 132 |
| Table 1b • Fannie Mae Purchases of<br>Mortgage-Related Securities, – Part 2,<br>Private-Label Detail .....           | 112 | Table 13a • Freddie Mac Total MBS<br>Outstanding Detail .....  | 133 |
| Table 2 • Fannie Mae MBS Issuances .....   | 113 | Table 14 • Freddie Mac Mortgage Assets Detail .....  | 134 |
| Table 3 • Fannie Mae Earnings .....  | 114 | Table 14a • Freddie Mac Mortgage<br>Assets Detail – Loans .....  | 135 |
| Table 4 • Fannie Mae Balance Sheet .....   | 115 | Table 14b • Freddie Mac Mortgage Assets Detail –<br>Part 1, Mortgage-Related Securities.....                           | 136 |
| Table 4a • Fannie Mae Total MBS<br>Outstanding Detail .....  | 116 | Table 14b • Freddie Mac Mortgage Assets Detail –<br>Part 2, Mortgage-Related Securities,<br>Private-Label Detail ..... | 137 |
| Table 5 • Fannie Mae Mortgage Assets Detail .....  | 117 | Table 14b • Freddie Mac Retained<br>Mortgage Assets Detail – Part 3,<br>Mortgage-Related Securities .....              | 138 |
| Table 5a • Fannie Mae Mortgage Assets<br>Detail – Loans .....  | 118 | Table 15 • Freddie Mac Financial Derivatives.....  | 139 |
| Table 5b • Fannie Mae Mortgage Assets Detail –<br>Part 1, Mortgage-Related Securities .....                          | 119 | Table 16 • Freddie Mac Nonmortgage Investments..   | 140 |
| Table 5b • Fannie Mae Mortgage Assets Detail –<br>Part 2, Mortgage-Related Securities,<br>Private-Label Detail ..... | 120 | Table 17 • Freddie Mac Mortgage Asset Quality .....  | 141 |
| Table 5b • Fannie Mae Mortgage Assets Detail<br>–Part 3, Mortgage-Related Securities.....                            | 121 | Table 18 • Freddie Mac Capital .....   | 142 |
| Table 6 • Fannie Mae Financial Derivatives .....   | 122 | Table 19 • Federal Home Loan Banks<br>Combined Statement of Income .....   | 143 |
| Table 7 • Fannie Mae Nonmortgage Investments ....  | 123 | Table 20 • Federal Home Loan Banks<br>Combined Balance Sheet .....   | 144 |
| Table 8 • Fannie Mae Mortgage Asset Quality .....  | 124 | Table 21 • Federal Home Loan Banks Net Income ..   | 145 |
| Table 9 • Fannie Mae Capital .....   | 125 | Table 22 • Federal Home Loan Banks<br>Advances Outstanding.....  | 146 |
| Table 10 • Freddie Mac Mortgage Purchases.....   | 126 | Table 23 • Federal Home Loan Banks<br>Regulatory Capital .....   | 147 |
| Table 10a • Freddie Mac Mortgage Purchases<br>Detail by Type of Loan.....  | 127 | Table 24 • Loan Limits .....   | 148 |
| Table 10b • Freddie Mac Purchases<br>of Mortgage-Related Securities – Part 1 .....                                   | 128 | Table 25 • Mortgage Interest Rates .....   | 149 |
| Table 10b • Freddie Mac Purchases<br>of Mortgage-Related Securities –<br>Part 2, Private-Label Detail .....          | 129 | Table 26 • Housing Market Activity.....  | 150 |
|  |     | Table 27 • Weighted Repeat Sales House<br>Price Index (Annual Data).....   | 151 |



Table 1. Fannie Mae Mortgage Purchases

| Period      | Business Activity (\$ in Millions) |                               |                                   |   |
|-------------|------------------------------------|-------------------------------|-----------------------------------|---|
|             | Purchases                          |                               |                                   |   |
|             | Single-Family <sup>1</sup> (\$)    | Multifamily <sup>1</sup> (\$) | Total Mortgages <sup>1</sup> (\$) | Mortgage-Related Securities <sup>2</sup> (\$) |
| 4Q10        | 213,119                            | 6,652                         | 219,771                           | 6,954   |
| 3Q10        | 160,226                            | 4,525                         | 164,751                           | 3,677   |
| 2Q10        | 112,690                            | 3,013                         | 115,703                           | 4,678   |
| 1Q10        | 121,792                            | 3,112                         | 124,904                           | 29,186  |
| Annual Data |                                    |                               |                                   |   |
| 2010        | 607,827                            | 17,302                        | 625,129                           | 44,495  |
| 2009        | 700,253                            | 19,912                        | 720,165                           | 161,562                                       |
| 2008        | 582,947                            | 34,288                        | 617,235                           | 77,523  |
| 2007        | 659,366                            | 45,302                        | 704,668                           | 69,236  |
| 2006        | 524,379                            | 20,646                        | 545,025                           | 102,666                                       |
| 2005        | 537,004                            | 21,485                        | 558,489                           | 62,232  |
| 2004        | 588,119                            | 16,386                        | 604,505                           | 176,385                                       |
| 2003        | 1,322,193                          | 31,196                        | 1,353,389                         | 408,606                                       |
| 2002        | 804,192                            | 16,772                        | 820,964                           | 268,574                                       |
| 2001        | 567,673                            | 19,131                        | 586,804                           | 209,124                                       |
| 2000        | 227,069                            | 10,377                        | 237,446                           | 129,716                                       |
| 1999        | 316,136                            | 10,012                        | 326,148                           | 169,905                                       |
| 1998        | 354,920                            | 11,428                        | 366,348                           | 147,260                                       |
| 1997        | 159,921                            | 6,534                         | 166,455                           | 50,317  |
| 1996        | 164,456                            | 6,451                         | 170,907                           | 46,743  |
| 1995        | 126,003                            | 4,966                         | 130,969                           | 36,258  |
| 1994        | 158,229                            | 3,839                         | 162,068                           | 25,905  |
| 1993        | 289,826                            | 4,135                         | 293,961                           | 6,606   |
| 1992        | 248,603                            | 2,956                         | 251,559                           | 5,428   |
| 1991        | 133,551                            | 3,204                         | 136,755                           | 3,080   |
| 1990        | 111,007                            | 3,180                         | 114,187                           | 1,451   |
| 1989        | 80,510                             | 4,325                         | 84,835                            | Not Applicable Before 1990                    |
| 1988        | 64,613                             | 4,170                         | 68,783                            |   |
| 1987        | 73,942                             | 1,733                         | 75,675                            |   |
| 1986        | 77,223                             | 1,877                         | 79,100                            |   |
| 1985        | 42,543                             | 1,200                         | 43,743                            |   |
| 1984        | 27,713                             | 1,106                         | 28,819                            |   |
| 1983        | 26,339                             | 140                           | 26,479                            |   |
| 1982        | 25,929                             | 10                            | 25,939                            |   |
| 1981        | 6,827                              | 2                             | 6,829                             |   |
| 1980        | 8,074                              | 27                            | 8,101                             |   |
| 1979        | 10,798                             | 9                             | 10,807                            |   |
| 1978        | 12,302                             | 3                             | 12,305                            |   |
| 1977        | 4,650                              | 134                           | 4,784                             |   |
| 1976        | 3,337                              | 295                           | 3,632                             |   |
| 1975        | 3,646                              | 674                           | 4,320                             |   |
| 1974        | 4,746                              | 2,273                         | 7,019                             |   |
| 1973        | 4,170                              | 2,082                         | 6,252                             |   |
| 1972        | 2,596                              | 1,268                         | 3,864                             |   |
| 1971        | 2,742                              | 1,298                         | 4,040                             |   |

Source: Fannie Mae

<sup>1</sup> Includes lender-originated mortgage-backed securities (MBS) issuances, cash purchases, and capitalized interest. Based on unpaid principal balances and excludes mortgage loans and securities traded but not yet settled. Excludes delinquent loans purchased from MBS trusts.

<sup>2</sup> Not included in total mortgage purchases. Includes purchases of Fannie Mae MBS held for investment and mortgage-related securities traded but not yet settled. Based on unpaid principal balances. Includes activity from settlements of dollar rolls accounted for as purchases and sales of securities but does not include activity from settlements of dollar rolls accounted for as secured financings.

**Table 1a. Fannie Mae Mortgage Purchases Detail by Type of Loan**

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                      |              |            |                              |                      |            |                                    |                       |                          |                                  |                               |
|-------------|---|----------------------|--------------|------------|------------------------------|----------------------|------------|------------------------------------|-----------------------|--------------------------|----------------------------------|-------------------------------|
|             | Single-Family Mortgages                 |                      |              |            |                              |                      |            |                                    | Multifamily Mortgages |                          |                                  | Total Mortgage Purchases (\$) |
|             | Conventional                            |                      |              |            | FHA/VA/RD                    |                      |            | Total Single-Family Mortgages (\$) | Conventional (\$)     | FHA/RD <sup>3</sup> (\$) | Total Multifamily Mortgages (\$) |                               |
|             | Fixed-Rate <sup>2</sup> (\$)            | Adjustable-Rate (\$) | Seconds (\$) | Total (\$) | Fixed-Rate <sup>2</sup> (\$) | Adjustable-Rate (\$) | Total (\$) |                                    |                       |                          |                                  |                               |
| 4Q10        | 202,218                                 | 9,921                | 13           | 212,152    | 126                          | 841                  | 967        | 213,119                            | 6,652                 | 0                        | 6,652                            | 219,771                       |
| 3Q10        | 149,159                                 | 10,045               | 16           | 159,220    | 118                          | 888                  | 1,006      | 160,226                            | 4,522                 | 3                        | 4,525                            | 164,751                       |
| 2Q10        | 102,959                                 | 8,629                | 17           | 111,605    | 142                          | 943                  | 1,085      | 112,690                            | 3,013                 | 0                        | 3,013                            | 115,703                       |
| 1Q10        | 111,195                                 | 9,428                | 22           | 120,645    | 130                          | 1,017                | 1,147      | 121,792                            | 3,112                 | 0                        | 3,112                            | 124,904                       |
| Annual Data |   |                      |              |            |                              |                      |            |                                    |                       |                          |                                  |                               |
| 2010        | 565,531                                 | 38,023               | 68           | 603,622    | 516                          | 3,689                | 4,205      | 607,827                            | 17,299                | 3                        | 17,302                           | 625,129                       |
| 2009        | 663,763                                 | 23,108               | 0            | 686,871    | 1,136                        | 12,246               | 13,382     | 700,253                            | 19,517                | 395                      | 19,912                           | 720,165                       |
| 2008        | 517,673                                 | 46,910               | 6            | 564,589    | 1,174                        | 17,184               | 18,358     | 582,947                            | 34,288                | 0                        | 34,288                           | 617,235                       |
| 2007        | 583,253                                 | 64,133               | 34           | 647,420    | 1,237                        | 10,709               | 11,946     | 659,366                            | 45,302                | 0                        | 45,302                           | 704,668                       |
| 2006        | 429,930                                 | 85,313               | 130          | 515,373    | 1,576                        | 7,430                | 9,006      | 524,379                            | 20,644                | 2                        | 20,646                           | 545,025                       |
| 2005        | 416,720                                 | 111,935              | 116          | 528,771    | 2,285                        | 5,948                | 8,233      | 537,004                            | 21,343                | 142                      | 21,485                           | 558,489                       |
| 2004        | 527,456                                 | 46,772               | 51           | 574,279    | 9,967                        | 3,873                | 13,840     | 588,119                            | 13,684                | 2,702                    | 16,386                           | 604,505                       |
| 2003        | 1,236,045                               | 64,980               | 93           | 1,301,118  | 18,032                       | 3,043                | 21,075     | 1,322,193                          | 28,071                | 3,125                    | 31,196                           | 1,353,389                     |
| 2002        | 738,177                                 | 48,617               | 40           | 786,834    | 15,810                       | 1,548                | 17,358     | 804,192                            | 15,089                | 1,683                    | 16,772                           | 820,964                       |
| 2001        | 534,115                                 | 25,648               | 1,137        | 560,900    | 5,671                        | 1,102                | 6,773      | 567,673                            | 17,849                | 1,282                    | 19,131                           | 586,804                       |
| 2000        | 187,236                                 | 33,809               | 726          | 221,771    | 4,378                        | 920                  | 5,298      | 227,069                            | 9,127                 | 1,250                    | 10,377                           | 237,446                       |
| 1999        | 293,188                                 | 12,138               | 1,198        | 306,524    | 8,529                        | 1,084                | 9,613      | 316,137                            | 8,858                 | 1,153                    | 10,011                           | 326,148                       |
| 1998        | 334,367                                 | 14,273               | 1            | 348,641    | 5,768                        | 511                  | 6,279      | 354,920                            | 10,844                | 584                      | 11,428                           | 366,348                       |
| 1997        | 136,329                                 | 21,095               | 3            | 157,427    | 2,062                        | 432                  | 2,494      | 159,921                            | 5,936                 | 598                      | 6,534                            | 166,455                       |
| 1996        | 146,154                                 | 15,550               | 3            | 161,707    | 2,415                        | 334                  | 2,749      | 164,456                            | 6,199                 | 252                      | 6,451                            | 170,907                       |
| 1995        | 104,901                                 | 17,978               | 9            | 122,888    | 3,009                        | 106                  | 3,115      | 126,003                            | 4,677                 | 289                      | 4,966                            | 130,969                       |
| 1994        | 139,815                                 | 16,340               | 8            | 156,163    | 1,953                        | 113                  | 2,066      | 158,229                            | 3,620                 | 219                      | 3,839                            | 162,068                       |
| 1993        | 274,402                                 | 14,420               | 29           | 288,851    | 855                          | 120                  | 975        | 289,826                            | 3,919                 | 216                      | 4,135                            | 293,961                       |
| 1992        | 226,332                                 | 21,001               | 136          | 247,469    | 1,055                        | 79                   | 1,134      | 248,603                            | 2,845                 | 111                      | 2,956                            | 251,559                       |
| 1991        | 114,321                                 | 17,187               | 705          | 132,213    | 1,300                        | 38                   | 1,338      | 133,551                            | 3,183                 | 21                       | 3,204                            | 136,755                       |
| 1990        | 95,011                                  | 14,528               | 654          | 110,193    | 799                          | 15                   | 814        | 111,007                            | 3,165                 | 15                       | 3,180                            | 114,187                       |
| 1989        | 60,794                                  | 17,692               | 521          | 79,007     | 1,489                        | 14                   | 1,503      | 80,510                             | 4,309                 | 16                       | 4,325                            | 84,835                        |
| 1988        | 35,767                                  | 27,492               | 433          | 63,692     | 823                          | 98                   | 921        | 64,613                             | 4,149                 | 21                       | 4,170                            | 68,783                        |
| 1987        | 60,434                                  | 10,675               | 139          | 71,248     | 2,649                        | 45                   | 2,694      | 73,942                             | 1,463                 | 270                      | 1,733                            | 75,675                        |
| 1986        | 58,251                                  | 7,305                | 498          | 66,054     | 11,155                       | 14                   | 11,169     | 77,223                             | 1,877                 | 0                        | 1,877                            | 79,100                        |
| 1985        | 29,993                                  | 10,736               | 871          | 41,600     | 927                          | 16                   | 943        | 42,543                             | 1,200                 | 0                        | 1,200                            | 43,743                        |
| 1984        | 17,998                                  | 8,049                | 937          | 26,984     | 729                          | 0                    | 729        | 27,713                             | 1,106                 | 0                        | 1,106                            | 28,819                        |
| 1983        | 18,136                                  | 4,853                | 1,408        | 24,397     | 1,942                        | 0                    | 1,942      | 26,339                             | 128                   | 12                       | 140                              | 26,479                        |
| 1982        | 19,311                                  | 3,210                | 1,552        | 24,073     | 1,856                        | 0                    | 1,856      | 25,929                             | 0                     | 10                       | 10                               | 25,939                        |
| 1981        | 4,260                                   | 107                  | 176          | 4,543      | 2,284                        | 0                    | 2,284      | 6,827                              | 0                     | 2                        | 2                                | 6,829                         |
| 1980        | 2,802                                   | 0                    | 0            | 2,802      | 5,272                        | 0                    | 5,272      | 8,074                              | 0                     | 27                       | 27                               | 8,101                         |
| 1979        | 5,410                                   | 0                    | 0            | 5,410      | 5,388                        | 0                    | 5,388      | 10,798                             | 0                     | 9                        | 9                                | 10,807                        |
| 1978        | 5,682                                   | 0                    | 0            | 5,682      | 6,620                        | 0                    | 6,620      | 12,302                             | 0                     | 3                        | 3                                | 12,305                        |
| 1977        | 2,366                                   | 0                    | 0            | 2,366      | 2,284                        | 0                    | 2,284      | 4,650                              | 0                     | 134                      | 134                              | 4,784                         |
| 1976        | 2,513                                   | 0                    | 0            | 2,513      | 824                          | 0                    | 824        | 3,337                              | 0                     | 295                      | 295                              | 3,632                         |
| 1975        | 547                                     | 0                    | 0            | 547        | 3,099                        | 0                    | 3,099      | 3,646                              | 0                     | 674                      | 674                              | 4,320                         |
| 1974        | 1,128                                   | 0                    | 0            | 1,128      | 3,618                        | 0                    | 3,618      | 4,746                              | 0                     | 2,273                    | 2,273                            | 7,019                         |
| 1973        | 939                                     | 0                    | 0            | 939        | 3,231                        | 0                    | 3,231      | 4,170                              | 0                     | 2,082                    | 2,082                            | 6,252                         |
| 1972        | 55                                      | 0                    | 0            | 55         | 2,541                        | 0                    | 2,541      | 2,596                              | 0                     | 1,268                    | 1,268                            | 3,864                         |
| 1971        | 0                                       | 0                    | 0            | 0          | 2,742                        | 0                    | 2,742      | 2,742                              | 0                     | 1,298                    | 1,298                            | 4,040                         |

Source : Fannie Mae

<sup>1</sup> Includes lender-originated mortgage-backed securities issuances, cash purchases, and capitalized interest. Based on unpaid principal balances; excludes mortgage loans traded but not yet settled.

<sup>2</sup> Includes balloon and energy loans.

<sup>3</sup> Includes loans guaranteed by USDA Rural Development (RD) programs.

**Table 1b. Fannie Mae Purchases of Mortgage-Related Securities – Part 1**

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                           |                           |                                    |                           |                           |                           |                        |                           |                           |                           |                       |                                       |                             |  |
|-------------|---|---------------------------|---------------------------|------------------------------------|---------------------------|---------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|-----------------------|---------------------------------------|-----------------------------|--|
|             | Fannie Mae Securities                   |                           |                           |                                    | Others' Securities        |                           |                           |                        |                           |                           |                           |                       |                                       | Mortgage Revenue Bonds (\$) | Total Mortgage-Related Securities (\$) |
|             | Single-Family                           |                           | Multi-family (\$)         | Total Fannie Mae <sup>2</sup> (\$) | Freddie Mac               |                           |                           |                        | Ginnie Mae                |                           |                           |                       | Total Private-Label <sup>2</sup> (\$) |                             |  |
|             |   |                           |                           |                                    | Single-Family             |                           | Multi-family (\$)         | Total Freddie Mac (\$) | Single-Family             |                           | Multi-family (\$)         | Total Ginnie Mae (\$) |                                       |                             |  |
|             | Fixed-Rate <sup>2</sup> (\$)            | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)               | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                        |                           |                           |                           |                       |                                       |                             |  |
| 4Q10        | 3,413                                   | 62                        | 2,960                     | 6,435                              | 42                        | 44                        | 0                         | 86                     | 408                       | 1                         | 24                        | 433                   | 0                                     | 0                           | 6,954                                  |
| 3Q10        | 1,474                                   | 135                       | 1,927                     | 3,536                              | 0                         | 50                        | 0                         | 50                     | 91                        | 0                         | 0                         | 91                    | 0                                     | 0                           | 3,677                                  |
| 2Q10        | 1,993                                   | 59                        | 1,490                     | 3,542                              | 474                       | 0                         | 0                         | 474                    | 662                       | 0                         | 0                         | 662                   | 0                                     | 0                           | 4,678                                  |
| 1Q10        | 20,814                                  | 45                        | 1,623                     | 22,482                             | 6,579                     | 23                        | 0                         | 6,602                  | 102                       | 0                         | 0                         | 102                   | 0                                     | 0                           | 29,186                                 |
| Annual Data |   |                           |                           |                                    |                           |                           |                           |                        |                           |                           |                           |                       |                                       |                             |  |
| 2010        | 27,694                                  | 301                       | 8,000                     | 35,995                             | 7,095                     | 117                       | 0                         | 7,212                  | 1,263                     | 1                         | 24                        | 1,288                 | 0                                     | 0                           | 44,495                                 |
| 2009        | 92,189                                  | 326                       | 5,531                     | 98,046                             | 61,861                    | 158                       | 0                         | 62,019                 | 1,495                     | 0                         | 0                         | 1,495                 | 0                                     | 2                           | 161,562                                |
| 2008        | 56,894                                  | 10,082                    | 1,023                     | 67,999                             | 3,649                     | 3,168                     | 0                         | 6,817                  | 0                         | 128                       | 0                         | 128                   | 2,295                                 | 284                         | 77,523                                 |
| 2007        | 16,126                                  | 8,277                     | 506                       | 24,909                             | 2,017                     | 4,055                     | 0                         | 6,072                  | 0                         | 35                        | 0                         | 35                    | 37,435                                | 785                         | 69,236                                 |
| 2006        | 23,177                                  | 14,826                    | 429                       | 38,432                             | 1,044                     | 5,108                     | 0                         | 6,152                  | 77                        | 0                         | 0                         | 77                    | 57,787                                | 218                         | 102,666                                |
| 2005        | 8,273                                   | 6,344                     | 888                       | 15,505                             | 121                       | 3,449                     | 0                         | 3,570                  | 0                         | 0                         | 0                         | 0                     | 41,369                                | 1,788                       | 62,232                                 |
| 2004        | 42,214                                  | 21,281                    | 1,159                     | 64,654                             | 6,546                     | 8,228                     | 0                         | 14,774                 | 0                         | 0                         | 0                         | 0                     | 90,833                                | 6,124                       | 176,385                                |
| 2003        | 341,461                                 | 5,842                     | 1,225                     | 348,528                            | 19,340                    | 502                       | 0                         | 19,842                 | 36                        | 0                         | 0                         | 36                    | 34,032                                | 6,168                       | 408,606                                |
| 2002        | 238,711                                 | 4,219                     | 1,572                     | 244,502                            | 7,856                     | 101                       | 0                         | 7,957                  | 4,425                     | 0                         | 0                         | 4,425                 | 7,416                                 | 4,273                       | 268,574                                |
| 2001        | Not Available Before 2002               | Not Available Before 2002 | Not Available Before 2002 | 180,582                            | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | 20,072                 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | 333                   | 3,513                                 | 4,624                       | 209,124                                |
| 2000        |   |                           | Before 2002               | 104,904                            |                           |                           | Before 2002               | 10,171                 |                           |                           | Before 2002               | 2,493                 | 8,466                                 | 3,682                       | 129,716                                |
| 1999        |   |                           |                           | 125,498                            |                           |                           |                           | 6,861                  |                           |                           |                           | 17,561                | 16,511                                | 3,474                       | 169,905                                |
| 1998        |   |                           |                           | 104,728                            |                           |                           |                           | 21,274                 |                           |                           |                           | 2,738                 | 15,721                                | 2,799                       | 147,260                                |
| 1997        |   |                           |                           | 39,033                             |                           |                           |                           | 2,119                  |                           |                           |                           | 3,508                 | 4,188                                 | 1,469                       | 50,317                                 |
| 1996        |   |                           |                           | 41,263                             |                           |                           |                           | 779                    |                           |                           |                           | 2,197                 | 777                                   | 1,727                       | 46,743                                 |
| 1995        |   |                           |                           | 30,432                             |                           |                           |                           | 2,832                  |                           |                           |                           | 20                    | 752                                   | 2,222                       | 36,258                                 |
| 1994        |   |                           |                           | 21,660                             |                           |                           |                           | 571                    |                           |                           |                           | 2,321                 | 0                                     | 1,353                       | 25,905                                 |
| 1993        |   |                           |                           | 6,275                              |                           |                           |                           | 0                      |                           |                           |                           | 0                     | 0                                     | 331                         | 6,606                                  |
| 1992        |   |                           |                           | 4,930                              |                           |                           |                           | 0                      |                           |                           |                           | 0                     | 0                                     | 498                         | 5,428                                  |
| 1991        |   |                           |                           | 2,384                              |                           |                           |                           | 0                      |                           |                           |                           | 0                     | 0                                     | 696                         | 3,080                                  |
| 1990        |   |                           |                           | 977                                |                           |                           |                           | 0                      |                           |                           |                           | 0                     | 0                                     | 474                         | 1,451                                  |

Source : Fannie Mae

<sup>1</sup> Includes purchases of Fannie Mae mortgage-backed securities held for investment. Based on unpaid principal balances. Includes mortgage loans and mortgage-related securities traded but not yet settled. Includes activity from settlements of dollar rolls accounted for as purchases and sales of securities but does not include activity from settlements of dollar rolls accounted for as secured financings.

<sup>2</sup> Certain amounts previously reported as Fannie Mae fixed-rate securities have been reclassified as private-label securities.

**Table 1b. Fannie Mae Purchases of Mortgage-Related Securities – Part 2, Private-Label Detail**

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                           |                           |                           |                           |                           |                           |                           |                          |
|-------------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------|
|             | Private-Label                           |                           |                           |                           |                           |                           |                           |                           |                          |
|             | Single-Family                           |                           |                           |                           |                           |                           |                           | Multifamily (\$)          | Total Private-Label (\$) |
|             | Manufactured Housing (\$)               | Subprime                  |                           | Alt-A                     |                           | Other                     |                           |                           |                          |
|             |   | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                          |
| 4Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| 3Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| 2Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| 1Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| Annual Data |   |                           |                           |                           |                           |                           |                           |                           |                          |
| 2010        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| 2009        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                        |
| 2008        | 0                                       | 0                         | 637                       | 175                       | 0                         | 0                         | 987                       | 496                       | 2,295                    |
| 2007        | 0                                       | 343                       | 15,628                    | 38                        | 5,250                     | 0                         | 178                       | 15,998                    | 37,435                   |
| 2006        | 0                                       | 0                         | 35,606                    | 1,504                     | 10,469                    | 0                         | 518                       | 9,690                     | 57,787                   |
| 2005        | 0                                       | 0                         | 24,469                    | 3,574                     | 12,535                    | 118                       | 571                       | 102                       | 41,369                   |
| 2004        | 0                                       | 176                       | 66,827                    | 7,064                     | 14,935                    | 221                       | 1,509                     | 101                       | 90,833                   |
| 2003        | 0                                       | 0                         | 25,769                    | 7,734                     | 370                       | 98                        | 0                         | 61                        | 34,032                   |
| 2002        | 56                                      | 181                       | 4,963                     | 1,756                     | 0                         | 43                        | 381                       | 36                        | 7,416                    |
| 2001        | Not Available Before 2002               | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | 3,513                    |
| 2000        |   |                           |                           |                           |                           |                           |                           |                           | 8,466                    |
| 1999        |   |                           |                           |                           |                           |                           |                           |                           | 16,511                   |
| 1998        |   |                           |                           |                           |                           |                           |                           |                           | 15,721                   |
| 1997        |   |                           |                           |                           |                           |                           |                           |                           | 4,188                    |
| 1996        |   |                           |                           |                           |                           |                           |                           |                           | 777                      |
| 1995        |   |                           |                           |                           |                           |                           |                           |                           | 752                      |

Source: Fannie Mae

<sup>1</sup> Based on unpaid principal balances and includes mortgage loans and mortgage-related securities traded but not yet settled. Certain amounts previously reported for years before 2007 have changed as a result of reclassification of certain securities.

Table 2. Fannie Mae MBS Issuances

| Period      | Business Activity (\$ in Millions) |                        |                |                                  |
|-------------|------------------------------------|------------------------|----------------|----------------------------------|
|             | MBS Issuances <sup>1</sup>         |                        |                |                                  |
|             | Single-Family MBS (\$)             | Multifamily MBS (\$)   | Total MBS (\$) | Multiclass MBS <sup>2</sup> (\$) |
| 4Q10        | 211,492                            | 15,262                 | 226,754        | 40,876                           |
| 3Q10        | 155,940                            | 4,437                  | 160,377        | 51,844                           |
| 2Q10        | 111,457                            | 2,727                  | 114,184        | 43,554                           |
| 1Q10        | 124,358                            | 4,073                  | 128,431        | 43,493                           |
| Annual Data |                                    |                        |                |                                  |
| 2010        | 603,247                            | 26,499                 | 629,746        | 179,767                          |
| 2009        | 791,418                            | 16,435                 | 807,853        | 100,846                          |
| 2008        | 536,951                            | 5,862                  | 542,813        | 67,559                           |
| 2007        | 622,458                            | 7,149                  | 629,607        | 112,563                          |
| 2006        | 476,161                            | 5,543                  | 481,704        | 124,856                          |
| 2005        | 500,759                            | 9,379                  | 510,138        | 123,813                          |
| 2004        | 545,635                            | 6,847                  | 552,482        | 94,686                           |
| 2003        | 1,196,730                          | 23,336                 | 1,220,066      | 260,919                          |
| 2002        | 731,133                            | 12,497                 | 743,630        | 170,795                          |
| 2001        | 514,621                            | 13,801                 | 528,422        | 139,403                          |
| 2000        | 204,066                            | 7,596                  | 211,662        | 39,544                           |
| 1999        | 292,192                            | 8,497                  | 300,689        | 55,160                           |
| 1998        | 315,120                            | 11,028                 | 326,148        | 84,147                           |
| 1997        | 143,615                            | 5,814                  | 149,429        | 85,415                           |
| 1996        | 144,201                            | 5,668                  | 149,869        | 30,780                           |
| 1995        | 106,269                            | 4,187                  | 110,456        | 9,681                            |
| 1994        | 128,385                            | 2,237                  | 130,622        | 73,365                           |
| 1993        | 220,485                            | 959                    | 221,444        | 210,630                          |
| 1992        | 193,187                            | 850                    | 194,037        | 170,205                          |
| 1991        | 111,488                            | 1,415                  | 112,903        | 112,808                          |
| 1990        | 96,006                             | 689                    | 96,695         | 68,291                           |
| 1989        | 66,489                             | 3,275                  | 69,764         | 41,715                           |
| 1988        | 51,120                             | 3,758                  | 54,878         | 17,005                           |
| 1987        | 62,067                             | 1,162                  | 63,229         | 9,917                            |
| 1986        | 60,017                             | 549                    | 60,566         | 2,400                            |
| 1985        | 23,142                             | 507                    | 23,649         | Not Issued Before 1986           |
| 1984        | 13,087                             | 459                    | 13,546         |                                  |
| 1983        | 13,214                             | 126                    | 13,340         |                                  |
| 1982        | 13,970                             | Not Issued Before 1983 | 13,970         |                                  |
| 1981        | 717                                |                        | 717            |                                  |

Source : Fannie Mae

<sup>1</sup> Lender-originated mortgage-backed securities (MBS) plus issuances from Fannie Mae's portfolio. Based on unpaid principal balances and excludes mortgage-related securities traded but not yet settled.<sup>2</sup> Beginning in 2006, includes grantor trusts and real estate mortgage investment conduits, as well as stripped MBS backed by Fannie Mae certificates.

**Table 3. Fannie Mae Earnings**

| Period             | Earnings (\$ in Millions)                  |   |                                 |  |                           |                                      |
|--------------------|--|---|---------------------------------|--|---------------------------|--------------------------------------|
|                    | Net Interest Income <sup>1,2</sup><br>(\$) | Guarantee Fee Income <sup>1</sup><br>(\$) | Administrative Expenses<br>(\$) | Credit-Related Expenses <sup>3</sup><br>(\$) | Net Income (Loss)<br>(\$) | Return on Equity <sup>4</sup><br>(%) |
| <b>4Q10</b>        | 4,637                                      | 45  | 592                             | 4,318  | 73                        | N/M                                  |
| <b>3Q10</b>        | 4,776                                      | 51  | 730                             | 5,561  | (1,339)                   | N/M                                  |
| <b>2Q10</b>        | 4,207                                      | 52  | 670                             | 4,851  | (1,218)                   | N/M                                  |
| <b>1Q10</b>        | 2,789                                      | 54  | 605                             | 11,884                                       | (11,530)                  | N/M                                  |
| <b>Annual Data</b> |  |   |                                 |  |                           |                                      |
| <b>2010</b>        | 16,409                                     | 202                                       | 2,597                           | 26,614                                       | (14,014)                  | N/M                                  |
| <b>2009</b>        | 14,510                                     | 7,211                                     | 2,207                           | 73,536                                       | (71,969)                  | N/M                                  |
| <b>2008</b>        | 8,782                                      | 7,621                                     | 1,979                           | 29,809                                       | (58,707)                  | N/M                                  |
| <b>2007</b>        | 4,581                                      | 5,071                                     | 2,669                           | 5,012  | (2,050)                   | (8.3)                                |
| <b>2006</b>        | 6,752                                      | 4,250                                     | 3,076                           | 783  | 4,059                     | 11.3                                 |
| <b>2005</b>        | 11,505                                     | 4,006                                     | 2,115                           | 428  | 6,347                     | 19.5                                 |
| <b>2004</b>        | 18,081                                     | 3,784                                     | 1,656                           | 363  | 4,967                     | 16.6                                 |
| <b>2003</b>        | 19,477                                     | 3,432                                     | 1,454                           | 353  | 8,081                     | 27.6                                 |
| <b>2002</b>        | 18,426                                     | 2,516                                     | 1,156                           | 273  | 3,914                     | 15.2                                 |
| <b>2001</b>        | 8,090                                      | 1,482                                     | 1,017                           | 78   | 5,894                     | 39.8                                 |
| <b>2000</b>        | 5,674                                      | 1,351                                     | 905                             | 94   | 4,448                     | 25.6                                 |
| <b>1999</b>        | 4,894                                      | 1,282                                     | 800                             | 127  | 3,912                     | 25.2                                 |
| <b>1998</b>        | 4,110                                      | 1,229                                     | 708                             | 261  | 3,418                     | 25.2                                 |
| <b>1997</b>        | 3,949                                      | 1,274                                     | 636                             | 375  | 3,056                     | 24.6                                 |
| <b>1996</b>        | 3,592                                      | 1,196                                     | 560                             | 409  | 2,725                     | 24.1                                 |
| <b>1995</b>        | 3,047                                      | 1,086                                     | 546                             | 335  | 2,144                     | 20.9                                 |
| <b>1994</b>        | 2,823                                      | 1,083                                     | 525                             | 378  | 2,132                     | 24.3                                 |
| <b>1993</b>        | 2,533                                      | 961                                       | 443                             | 305  | 1,873                     | 25.3                                 |
| <b>1992</b>        | 2,058                                      | 834                                       | 381                             | 320  | 1,623                     | 26.5                                 |
| <b>1991</b>        | 1,778                                      | 675                                       | 319                             | 370  | 1,363                     | 27.7                                 |
| <b>1990</b>        | 1,593                                      | 536                                       | 286                             | 310  | 1,173                     | 33.7                                 |
| <b>1989</b>        | 1,191                                      | 408                                       | 254                             | 310  | 807                       | 31.1                                 |
| <b>1988</b>        | 837  | 328                                       | 218                             | 365  | 507                       | 25.2                                 |
| <b>1987</b>        | 890  | 263                                       | 197                             | 360  | 376                       | 23.5                                 |
| <b>1986</b>        | 384  | 175                                       | 175                             | 306  | 105                       | 9.5                                  |
| <b>1985</b>        | 139  | 112                                       | 142                             | 206  | (7)                       | (0.7)                                |
| <b>1984</b>        | (90)                                       | 78  | 112                             | 86   | (71)                      | (7.4)                                |
| <b>1983</b>        | (9)  | 54  | 81                              | 48   | 49                        | 5.1                                  |
| <b>1982</b>        | (464)                                      | 16  | 60                              | 36   | (192)                     | (18.9)                               |
| <b>1981</b>        | (429)                                      | 0   | 49                              | (28)   | (206)                     | (17.2)                               |
| <b>1980</b>        | 21   | Not Available Before 1981                 | 44                              | 19   | 14                        | 0.9                                  |
| <b>1979</b>        | 322  |   | 46                              | 35   | 162                       | 11.3                                 |
| <b>1978</b>        | 294  |   | 39                              | 36   | 209                       | 16.5                                 |
| <b>1977</b>        | 251  |   | 32                              | 28   | 165                       | 15.3                                 |
| <b>1976</b>        | 203  |   | 30                              | 25   | 127                       | 13.8                                 |
| <b>1975</b>        | 174  |   | 27                              | 16   | 115                       | 14.1                                 |
| <b>1974</b>        | 142  |   | 23                              | 17   | 107                       | 14.7                                 |
| <b>1973</b>        | 180  |   | 18                              | 12   | 126                       | 20.3                                 |
| <b>1972</b>        | 138  |   | 13                              | 5  | 96                        | 18.8                                 |
| <b>1971</b>        | 49   |   | 15                              | 4  | 61                        | 14.4                                 |

Source : Fannie Mae

N/M = not meaningful

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these line items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Effective January 1, 2010, guarantee fee income associated with the securitization activities of consolidated trusts is reflected in net interest income.

<sup>2</sup> Interest income net of interest expense.

<sup>3</sup> Credit-related expenses include provisions for loan losses and guarantee losses (collectively, the provision for credit losses) and foreclosed property expense (income).

<sup>4</sup> Net income (loss) available to common stockholders divided by average outstanding common equity.



Table 4. Fannie Mae Balance Sheet

| End of Period | Balance Sheet (\$ in Millions)      |  |  |                                       |   |                                   |                                |   |
|---------------|-------------------------------------|--|--|---------------------------------------|---|-----------------------------------|--------------------------------|---|
|               | Total Assets <sup>1,2</sup><br>(\$) | Total Mortgage Assets <sup>3</sup><br>(\$) | Nonmortgage Investments <sup>4</sup><br>(\$) | Debt Outstanding <sup>1</sup><br>(\$) | Shareholders' Equity <sup>1</sup> (Deficit)<br>(\$) | Core Capital <sup>5</sup><br>(\$) | Senior Preferred Stock<br>(\$) | Fair Value of Net Assets <sup>1</sup><br>(\$) |
| 4Q10          | 3,221,972                           | 3,103,772                                  | 44,503                                       | 3,197,000                             | (2,517)   | (89,516)                          | 88,600                         | (120,212)                                     |
| 3Q10          | 3,229,662                           | 3,096,803                                  | 65,413                                       | 3,203,462                             | (2,447)   | (87,445)                          | 86,100                         | (130,766)                                     |
| 2Q10          | 3,256,267                           | 3,111,240                                  | 90,415                                       | 3,225,264                             | (1,411)   | (83,997)                          | 84,600                         | (137,895)                                     |
| 1Q10          | 3,293,755                           | 3,127,688                                  | 106,117                                      | 3,262,664                             | (8,371)   | (80,898)                          | 76,200                         | (145,133)                                     |
| Annual Data   |                                     |  |  |                                       |   |                                   |                                |   |
| 2010          | 3,221,972                           | 3,103,772                                  | 44,503                                       | 3,197,000                             | (2,517)   | (89,516)                          | 88,600                         | (120,212)                                     |
| 2009          | 869,141                             | 745,271                                    | 57,782                                       | 774,554                               | (15,281)  | (74,540)                          | 60,900                         | (98,701)                                      |
| 2008          | 912,404                             | 767,989                                    | 71,550                                       | 870,393                               | (15,314)  | (8,641)                           | 1,000                          | (105,150)                                     |
| 2007          | 882,547                             | 723,620                                    | 86,875                                       | 796,299                               | 44,011  | 45,373                            | Not Applicable Before 2008     | 35,799  |
| 2006          | 843,936                             | 726,434                                    | 56,983                                       | 767,046                               | 41,506  | 41,950                            |                                | 43,699  |
| 2005          | 834,168                             | 736,803                                    | 46,016                                       | 764,010                               | 39,302  | 39,433                            |                                | 42,199  |
| 2004          | 1,020,934                           | 925,194                                    | 47,839                                       | 953,111                               | 38,902  | 34,514                            |                                | 40,094  |
| 2003          | 1,022,275                           | 919,589                                    | 59,518                                       | 961,280                               | 32,268  | 26,953                            |                                | 28,393  |
| 2002          | 904,739                             | 820,627                                    | 39,376                                       | 841,293                               | 31,899  | 20,431                            |                                | 22,130  |
| 2001          | 799,948                             | 706,347                                    | 65,982                                       | 763,467                               | 18,118  | 25,182                            |                                | 22,675  |
| 2000          | 675,224                             | 607,731                                    | 52,347                                       | 642,682                               | 20,838  | 20,827                            |                                | 20,677  |
| 1999          | 575,308                             | 523,103                                    | 37,299                                       | 547,619                               | 17,629  | 17,876                            |                                | 20,525  |
| 1998          | 485,146                             | 415,434                                    | 58,515                                       | 460,291                               | 15,453  | 15,465                            |                                | 14,885  |
| 1997          | 391,673                             | 316,592                                    | 64,596                                       | 369,774                               | 13,793  | 13,793                            |                                | 15,982  |
| 1996          | 351,041                             | 286,528                                    | 56,606                                       | 331,270                               | 12,773  | 12,773                            |                                | 14,556  |
| 1995          | 316,550                             | 252,868                                    | 57,273                                       | 299,174                               | 10,959  | 10,959                            |                                | 11,037  |
| 1994          | 272,508                             | 220,815                                    | 46,335                                       | 257,230                               | 9,541   | 9,541                             |                                | 10,924  |
| 1993          | 216,979                             | 190,169                                    | 21,396                                       | 201,112                               | 8,052   | 8,052                             |                                | 9,126   |
| 1992          | 180,978                             | 156,260                                    | 19,574                                       | 166,300                               | 6,774   | Not Applicable Before 1993        |                                | 9,096   |
| 1991          | 147,072                             | 126,679                                    | 9,836  | 133,937                               | 5,547   |                                   |                                | Not Available Before 1992                     |
| 1990          | 133,113                             | 114,066                                    | 9,868  | 123,403                               | 3,941   |                                   |                                |   |
| 1989          | 124,315                             | 107,981                                    | 8,338  | 116,064                               | 2,991   |                                   |                                |   |
| 1988          | 112,258                             | 100,099                                    | 5,289  | 105,459                               | 2,260   |                                   |                                |   |
| 1987          | 103,459                             | 93,665                                     | 3,468  | 97,057                                | 1,811   |                                   |                                |   |
| 1986          | 99,621                              | 94,123                                     | 1,775  | 93,563                                | 1,182   |                                   |                                |   |
| 1985          | 99,076                              | 94,609                                     | 1,466  | 93,985                                | 1,009   |                                   |                                |   |
| 1984          | 87,798                              | 84,135                                     | 1,840  | 83,719                                | 918   |                                   |                                |   |
| 1983          | 78,383                              | 75,247                                     | 1,689  | 74,594                                | 1,000   |                                   |                                |   |
| 1982          | 72,981                              | 69,356                                     | 2,430  | 69,614                                | 953   |                                   |                                |   |
| 1981          | 61,578                              | 59,629                                     | 1,047  | 58,551                                | 1,080   |                                   |                                |   |
| 1980          | 57,879                              | 55,589                                     | 1,556  | 54,880                                | 1,457   |                                   |                                |   |
| 1979          | 51,300                              | 49,777                                     | 843  | 48,424                                | 1,501   |                                   |                                |   |
| 1978          | 43,506                              | 42,103                                     | 834  | 40,985                                | 1,362   |                                   |                                |   |
| 1977          | 33,980                              | 33,252                                     | 318  | 31,890                                | 1,173   |                                   |                                |   |
| 1976          | 32,393                              | 31,775                                     | 245  | 30,565                                | 983   |                                   |                                |   |
| 1975          | 31,596                              | 30,820                                     | 239  | 29,963                                | 861   |                                   |                                |   |
| 1974          | 29,671                              | 28,666                                     | 466  | 28,168                                | 772   |                                   |                                |   |
| 1973          | 24,318                              | 23,589                                     | 227  | 23,003                                | 680   |                                   |                                |   |
| 1972          | 20,346                              | 19,652                                     | 268  | 19,239                                | 559   |                                   |                                |   |
| 1971          | 18,591                              | 17,886                                     | 349  | 17,672                                | 460   |                                   |                                |   |

Source : Fannie Mae

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these line items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Adoption of these new accounting standards resulted in the consolidation of the substantial majority of mortgage-backed securities (MBS) trusts and recognition of the underlying assets and debt of these trusts in the consolidated balance sheet.

<sup>2</sup> Beginning in 1998, the guarantee liability for Fannie Mae MBS held for investment was classified as a liability.

<sup>3</sup> Gross mortgage assets net of unamortized purchase premiums, discounts, cost-basis adjustments, fair-value adjustments on securities and loans. Beginning in 2002, amounts include fair-value adjustments on available-for-sale and trading securities, as well as impairments on available-for-sale securities.

Excludes allowance for loan losses on loans held for investment. Amounts for 1999 through 2001 include certain loans held for investment previously classified as nonmortgage investments.

<sup>4</sup> Data reflect unpaid principal balance net of unamortized purchase premiums, discounts and cost-basis adjustments, as well as fair-value adjustments and impairments on available-for-sale and trading securities. Since 2005, advances to lenders have not been included. Amounts for periods before 2005 may include or consist of advances to lenders. Before 1982, the majority of nonmortgage investments consisted of U.S. government securities and agency securities.

<sup>5</sup> The sum of (a) the stated value of outstanding common stock (common stock less Treasury stock); (b) the stated value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss) and senior preferred stock.

**Table 4a. Fannie Mae Total MBS Outstanding Detail**

| End of Period      | Single-Family Mortgages<br>(\$ in Millions) <sup>1</sup> |                           |                           |                           |                           |                           |                           | Multifamily Mortgages<br>(\$ in Millions) <sup>1</sup> |                           |                            | (\$ in Millions)                           |   |
|--------------------|--|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--|---------------------------|----------------------------|--|---|
|                    | Conventional   |                           |                           |                           | FHA/VA                    |                           |                           | Conventional<br>(\$)                                   | FHA/RD<br>(\$)            | Total Multi-family<br>(\$) | Total MBS Outstanding <sup>1</sup><br>(\$) | Multiclass MBS Outstanding <sup>2</sup><br>(\$) |
|                    | Fixed-Rate<br>(\$)                                       | Adjustable-Rate<br>(\$)   | Seconds<br>(\$)           | Total<br>(\$)             | Fixed-Rate<br>(\$)        | Adjustable-Rate<br>(\$)   | Total<br>(\$)             |  |                           |                            |  |   |
| <b>4Q10</b>        | 2,172,092  | 150,378                   | 805                       | 2,323,275                 | 17,167                    | 144                       | 17,311                    | 57,206   | 1,785                     | 58,991                     | 2,399,577                                  | 507,268   |
| <b>3Q10</b>        | 2,147,281  | 151,916                   | 864                       | 2,300,061                 | 17,510                    | 149                       | 17,659                    | 55,046   | 1,827                     | 56,873                     | 2,374,593                                  | 508,871   |
| <b>2Q10</b>        | 2,139,423  | 159,942                   | 21                        | 2,299,386                 | 17,763                    | 157                       | 17,920                    | 52,075   | 1,877                     | 53,952                     | 2,371,258                                  | 488,792   |
| <b>1Q10</b>        | 2,219,619  | 176,469                   | 23                        | 2,396,111                 | 18,064                    | 164                       | 18,228                    | 52,067   | 1,955                     | 54,022                     | 2,468,361                                  | 497,488   |
| <b>Annual Data</b> |  |                           |                           |                           |                           |                           |                           |  |                           |                            |  |   |
| <b>2010</b>        | 2,172,092  | 150,378                   | 805                       | 2,323,275                 | 17,167                    | 144                       | 17,311                    | 57,206   | 1,785                     | 58,991                     | 2,399,577                                  | 507,268   |
| <b>2009</b>        | 2,190,357  | 179,655                   | 25                        | 2,370,037                 | 15,026                    | 171                       | 15,197                    | 46,628   | 927                       | 47,555                     | 2,432,789                                  | 480,057   |
| <b>2008</b>        | 2,035,020  | 203,206                   | 31                        | 2,238,257                 | 12,903                    | 214                       | 13,117                    | 37,298   | 787                       | 38,085                     | 2,289,459                                  | 481,137   |
| <b>2007</b>        | 1,850,150  | 214,245                   | 0                         | 2,064,395                 | 14,982                    | 275                       | 15,257                    | 38,218   | 1,039                     | 39,257                     | 2,118,909                                  | 490,692   |
| <b>2006</b>        | 1,484,147  | 230,667                   | 0                         | 1,714,814                 | 18,615                    | 454                       | 19,069                    | 42,184   | 1,483                     | 43,667                     | 1,777,550                                  | 456,970   |
| <b>2005</b>        | 1,290,354  | 232,689                   | 0                         | 1,523,043                 | 23,065                    | 668                       | 23,733                    | 50,346   | 1,796                     | 52,142                     | 1,598,918                                  | 412,060   |
| <b>2004</b>        | 1,243,343  | 75,722                    | 0                         | 1,319,065                 | 31,389                    | 949                       | 32,336                    | 47,386   | 9,260                     | 56,646                     | 1,408,047                                  | 368,567   |
| <b>2003</b>        | 1,112,849  | 87,373                    | 0                         | 1,200,222                 | 36,139                    | 1,268                     | 37,407                    | 53,720   | 9,171                     | 62,891                     | 1,300,520                                  | 398,516   |
| <b>2002</b>        | 875,260  | 75,430                    | 0                         | 950,690                   | 36,057                    | 1,247                     | 37,304                    | 47,025   | 5,420                     | 52,445                     | 1,040,439                                  | 401,406   |
| <b>2001</b>        | 752,211  | 60,842                    | 772                       | 813,825                   | 4,519                     | 1,207                     | 5,726                     | 42,713   | 1,181                     | 43,894                     | 863,445                                    | 392,457   |
| <b>2000</b>        | 599,999  | 61,495                    | 1,165                     | 662,659                   | 6,778                     | 1,298                     | 8,076                     | 35,207   | 780                       | 35,987                     | 706,722                                    | 334,508   |
| <b>1999</b>        | 586,069  | 51,474                    | 1,212                     | 638,755                   | 7,159                     | 1,010                     | 8,169                     | 31,518   | 703                       | 32,221                     | 679,145                                    | 335,514   |
| <b>1998</b>        | 545,680  | 56,903                    | 98                        | 602,681                   | 5,340                     | 587                       | 5,927                     | 28,378   | 157                       | 28,535                     | 637,143                                    | 361,613   |
| <b>1997</b>        | 483,982  | 70,106                    | 7                         | 554,095                   | 3,872                     | 213                       | 4,085                     | 20,824   | 134                       | 20,958                     | 579,138                                    | 388,360   |
| <b>1996</b>        | 460,866  | 65,682                    | 9                         | 526,557                   | 4,402                     | 191                       | 4,593                     | 16,912   | 111                       | 17,023                     | 548,173                                    | 339,798   |
| <b>1995</b>        | 431,755  | 63,436                    | 13                        | 495,204                   | 5,043                     | 91                        | 5,134                     | 12,579   | 313                       | 12,892                     | 513,230                                    | 353,528   |
| <b>1994</b>        | 415,692  | 55,780                    | 18                        | 471,490                   | 5,628                     | 0                         | 5,628                     | 8,908  | 319                       | 9,227                      | 486,345                                    | 378,733   |
| <b>1993</b>        | 405,383  | 49,987                    | 28                        | 455,398                   | 7,549                     | 0                         | 7,549                     | 8,034  | 325                       | 8,359                      | 471,306                                    | 381,865   |
| <b>1992</b>        | 360,619  | 45,718                    | 43                        | 406,380                   | 9,438                     | 0                         | 9,438                     | 8,295  | 331                       | 8,626                      | 424,444                                    | 312,369   |
| <b>1991</b>        | 290,038  | 45,110                    | 89                        | 335,237                   | 11,112                    | 0                         | 11,112                    | 8,599  | 336                       | 8,935                      | 355,284                                    | 224,806   |
| <b>1990</b>        | 225,981  | 42,443                    | 121                       | 268,545                   | 11,380                    | 0                         | 11,380                    | 7,807  | 343                       | 8,150                      | 288,075                                    | 127,278   |
| <b>1989</b>        | Not Available Before 1990                                | Not Available Before 1990 | Not Available Before 1990 | Not Available Before 1990 | Not Available Before 1990 | Not Available Before 1990 | Not Available Before 1990 | Not Available Before 1990                              | Not Available Before 1990 | Not Available Before 1990  | 216,512                                    | 64,826  |
| <b>1988</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 170,097                                    | 26,660  |
| <b>1987</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 135,734                                    | 11,359  |
| <b>1986</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 95,568                                     | Not Issued Before 1987                          |
| <b>1985</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 54,552                                     |   |
| <b>1984</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 35,738                                     |   |
| <b>1983</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 25,121                                     |   |
| <b>1982</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 14,450                                     |   |
| <b>1981</b>        |  |                           |                           |                           |                           |                           |                           |  |                           |                            | 717  |   |

Source : Fannie Mae

<sup>1</sup> Unpaid principal balance of Fannie Mae mortgage-backed securities (MBS) held by third-party investors. Includes guaranteed whole loan real estate mortgage investment conduits (REMICs) and private-label wraps that are not included in grantor trusts. The principal balance of resecutitized Fannie Mae MBS is included only once.

<sup>2</sup> Beginning in 2005, consists of securities guaranteed by Fannie Mae and backed by Ginnie Mae collateral, grantor trusts, and REMICs, as well as stripped MBS backed by Fannie Mae certificates.

Table 5. Fannie Mae Mortgage Assets Detail<sup>1</sup>

| End of Period      | (\$ in Millions)             |  |  |   |                            |
|--------------------|------------------------------|--|--|---|----------------------------|
|                    | Loans <sup>2,3</sup><br>(\$) | Fannie Mae Securities <sup>2,4</sup><br>(\$) | Other Mortgage-Related Securities <sup>2,4,5</sup><br>(\$) | Unamortized Premiums, Discounts, Deferred Adjustments, and Fair-Value Adjustments on Securities and Loans <sup>6</sup> (\$) | Total Mortgage Assets (\$) |
| <b>4Q10</b>        | 2,989,997                    | 28,466                                       | 101,704  | (16,395)  | 3,103,772                  |
| <b>3Q10</b>        | 2,977,037                    | 32,222                                       | 105,195  | (17,651)  | 3,096,803                  |
| <b>2Q10</b>        | 2,991,734                    | 33,813                                       | 109,826  | (24,133)  | 3,111,240                  |
| <b>1Q10</b>        | 3,001,836                    | 36,616                                       | 117,525  | (28,289)  | 3,127,688                  |
| <b>Annual Data</b> |                              |  |  |   |                            |
| <b>2010</b>        | 2,989,997                    | 28,466                                       | 101,704  | (16,395)  | 3,103,772                  |
| <b>2009</b>        | 416,543                      | 220,245                                      | 132,464  | (23,981)  | 745,271                    |
| <b>2008</b>        | 429,493                      | 228,950                                      | 133,753  | (24,207)  | 767,989                    |
| <b>2007</b>        | 403,577                      | 180,163                                      | 144,163  | (4,283)   | 723,620                    |
| <b>2006</b>        | 383,045                      | 199,644                                      | 146,243  | (2,498)   | 726,434                    |
| <b>2005</b>        | 366,680                      | 234,451                                      | 136,758  | (1,086)   | 736,803                    |
| <b>2004</b>        | 400,157                      | 344,404                                      | 172,648  | 7,985   | 925,194                    |
| <b>2003</b>        | 397,633                      | 405,922                                      | 105,313  | 10,721  | 919,589                    |
| <b>2002</b>        | 323,244                      | 380,383                                      | 96,152   | 20,848  | 820,627                    |
| <b>2001</b>        | 167,405                      | 431,776                                      | 109,270  | (2,104)   | 706,347                    |
| <b>2000</b>        | 152,634                      | 351,066                                      | 106,551  | (2,520)   | 607,731                    |
| <b>1999</b>        | 149,231                      | 281,714                                      | 93,122   | (964)   | 523,103                    |
| <b>1998</b>        | 155,779                      | 197,375                                      | 61,361   | 919   | 415,434                    |
| <b>1997</b>        | 160,102                      | 130,444                                      | 26,132   | (86)  | 316,592                    |
| <b>1996</b>        | 167,891                      | 102,607                                      | 16,554   | (525)   | 286,528                    |
| <b>1995</b>        | 171,481                      | 69,729                                       | 12,301   | (643)   | 252,868                    |
| <b>1994</b>        | 170,909                      | 43,998                                       | 7,150  | (1,242)   | 220,815                    |
| <b>1993</b>        | 163,149                      | 24,219                                       | 3,493  | (692)   | 190,169                    |
| <b>1992</b>        | 134,597                      | 20,535                                       | 2,987  | (1,859)   | 156,260                    |
| <b>1991</b>        | 109,251                      | 16,700                                       | 3,032  | (2,304)   | 126,679                    |
| <b>1990</b>        | 101,797                      | 11,758                                       | 3,073  | (2,562)   | 114,066                    |
| <b>1989</b>        | 95,729                       | 11,720                                       | 3,272  | (2,740)   | 107,981                    |
| <b>1988</b>        | 92,220                       | 8,153  | 2,640  | (2,914)   | 100,099                    |
| <b>1987</b>        | 89,618                       | 4,226  | 2,902  | (3,081)   | 93,665                     |
| <b>1986</b>        | 94,167                       | 1,606  | 2,060  | (3,710)   | 94,123                     |
| <b>1985</b>        | 97,421                       | 435  | 793  | (4,040)   | 94,609                     |
| <b>1984</b>        | 87,205                       | 477  | 427  | (3,974)   | 84,135                     |
| <b>1983</b>        | 77,983                       | Not Available Before 1984                    | 273  | (3,009)   | 75,247                     |
| <b>1982</b>        | 71,777                       |  | 37   | (2,458)   | 69,356                     |
| <b>1981</b>        | 61,411                       |  | 1  | (1,783)   | 59,629                     |
| <b>1980</b>        | 57,326                       |  | 1  | (1,738)   | 55,589                     |
| <b>1979</b>        | 51,096                       |  | 1  | (1,320)   | 49,777                     |
| <b>1978</b>        | 43,315                       |  | Not Available Before 1979                                  | (1,212)   | 42,103                     |
| <b>1977</b>        | 34,377                       |  |  | (1,125)   | 33,252                     |
| <b>1976</b>        | 32,937                       |  |  | (1,162)   | 31,775                     |
| <b>1975</b>        | 31,916                       |  |  | (1,096)   | 30,820                     |
| <b>1974</b>        | 29,708                       |  |  | (1,042)   | 28,666                     |
| <b>1973</b>        | 24,459                       |  |  | (870)   | 23,589                     |
| <b>1972</b>        | 20,326                       |  |  | (674)   | 19,652                     |
| <b>1971</b>        | 18,515                       |  |  | (629)   | 17,886                     |

Source : Fannie Mae

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Adoption of these new accounting standards resulted in consolidation of the substantial majority of mortgage-backed securities trusts and recognition of the underlying assets and debt of these trusts in the consolidated balance sheet.

<sup>2</sup> Unpaid principal balance.

<sup>3</sup> Beginning with 2002, includes mortgage-related securities consolidated as loans as of period end.

For 1999, 2000, and 2001, includes certain loans held for investment classified as nonmortgage investments.

<sup>4</sup> Beginning with 2002, excludes mortgage-related securities consolidated as loans as of period end.

<sup>5</sup> Includes mortgage revenue bonds.

<sup>6</sup> Includes unamortized premiums, discounts, deferred adjustments, and fair-value adjustments on securities and loans. Beginning in 2002, amounts include fair-value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes allowance for loan losses on loans held for investment.

**Table 5a. Fannie Mae Mortgage Assets Detail – Loans**

| End of Period | Loans (\$ in Millions) <sup>1,2</sup> |                           |                           |                           |                                   |                           |                           |                           |                  |
|---------------|---------------------------------------|---------------------------|---------------------------|---------------------------|-----------------------------------|---------------------------|---------------------------|---------------------------|------------------|
|               | Single-Family                         |                           |                           |                           |                                   | Multifamily               |                           |                           | Total Loans (\$) |
|               | Conventional                          |                           |                           |                           | Total FHA/VA/RD <sup>4</sup> (\$) | Conventional (\$)         | FHA/RD <sup>4</sup> (\$)  | Total (\$)                |                  |
|               | Fixed-Rate <sup>3</sup> (\$)          | Adjustable-Rate (\$)      | Seconds (\$)              | Total (\$)                |                                   |                           |                           |                           |                  |
| 4Q10          | 2,564,910                             | 200,959                   | 1,001                     | 2,766,870                 | 52,577                            | 170,074                   | 476                       | 170,550                   | 2,989,997        |
| 3Q10          | 2,547,853                             | 207,104                   | 1,064                     | 2,756,021                 | 52,600                            | 167,908                   | 508                       | 168,416                   | 2,977,037        |
| 2Q10          | 2,558,629                             | 213,195                   | 243                       | 2,772,067                 | 52,669                            | 166,464                   | 534                       | 166,998                   | 2,991,734        |
| 1Q10          | 2,559,680                             | 222,672                   | 248                       | 2,782,600                 | 52,579                            | 166,097                   | 560                       | 166,657                   | 3,001,836        |
| Annual Data   |                                       |                           |                           |                           |                                   |                           |                           |                           |                  |
| 2010          | 2,564,910                             | 200,959                   | 1,001                     | 2,766,870                 | 52,577                            | 170,074                   | 476                       | 170,550                   | 2,989,997        |
| 2009          | 208,915                               | 34,602                    | 213                       | 243,730                   | 52,399                            | 119,829                   | 585                       | 120,414                   | 416,543          |
| 2008          | 223,881                               | 44,157                    | 215                       | 268,253                   | 43,799                            | 116,742                   | 699                       | 117,441                   | 429,493          |
| 2007          | 240,090                               | 43,278                    | 261                       | 283,629                   | 28,202                            | 90,931                    | 815                       | 91,746                    | 403,577          |
| 2006          | 255,490                               | 46,820                    | 287                       | 302,597                   | 20,106                            | 59,374                    | 968                       | 60,342                    | 383,045          |
| 2005          | 261,214                               | 38,331                    | 220                       | 299,765                   | 15,036                            | 50,731                    | 1,148                     | 51,879                    | 366,680          |
| 2004          | 307,048                               | 38,350                    | 177                       | 345,575                   | 10,112                            | 43,396                    | 1,074                     | 44,470                    | 400,157          |
| 2003          | 335,812                               | 19,155                    | 233                       | 355,200                   | 7,284                             | 33,945                    | 1,204                     | 35,149                    | 397,633          |
| 2002          | 282,899                               | 12,142                    | 416                       | 295,457                   | 6,404                             | 19,485                    | 1,898                     | 21,383                    | 323,244          |
| 2001          | 140,454                               | 10,427                    | 917                       | 151,798                   | 5,069                             | 8,987                     | 1,551                     | 10,538                    | 167,405          |
| 2000          | 125,786                               | 13,244                    | 480                       | 139,510                   | 4,763                             | 6,547                     | 1,814                     | 8,361                     | 152,634          |
| 1999          | 130,614                               | 6,058                     | 176                       | 136,848                   | 4,472                             | 5,564                     | 2,347                     | 7,911                     | 149,231          |
| 1998          | 135,351                               | 7,633                     | 206                       | 143,190                   | 4,404                             | 5,590                     | 2,595                     | 8,185                     | 155,779          |
| 1997          | 134,543                               | 10,389                    | 268                       | 145,200                   | 4,631                             | 7,388                     | 2,883                     | 10,271                    | 160,102          |
| 1996          | 137,507                               | 12,415                    | 323                       | 150,245                   | 4,739                             | 9,756                     | 3,151                     | 12,907                    | 167,891          |
| 1995          | 137,032                               | 14,756                    | 423                       | 152,211                   | 4,780                             | 11,175                    | 3,315                     | 14,490                    | 171,481          |
| 1994          | 133,882                               | 16,475                    | 537                       | 150,894                   | 4,965                             | 11,681                    | 3,369                     | 15,050                    | 170,909          |
| 1993          | 123,308                               | 19,175                    | 772                       | 143,255                   | 5,305                             | 11,143                    | 3,446                     | 14,589                    | 163,149          |
| 1992          | 91,500                                | 22,637                    | 1,355                     | 115,492                   | 6,097                             | 9,407                     | 3,601                     | 13,008                    | 134,597          |
| 1991          | 69,130                                | 19,763                    | 2,046                     | 90,939                    | 6,962                             | 7,641                     | 3,709                     | 11,350                    | 109,251          |
| 1990          | 61,873                                | 19,558                    | 1,851                     | 83,282                    | 8,524                             | 6,142                     | 3,849                     | 9,991                     | 101,797          |
| 1989          | 55,638                                | 20,751                    | 1,614                     | 78,003                    | 9,450                             | 3,926                     | 4,350                     | 8,276                     | 95,729           |
| 1988          | 53,090                                | 20,004                    | 1,561                     | 74,655                    | 10,480                            | 2,699                     | 4,386                     | 7,085                     | 92,220           |
| 1987          | 55,913                                | 13,702                    | 1,421                     | 71,036                    | 11,652                            | 2,448                     | 4,482                     | 6,930                     | 89,618           |
| 1986          | Not Available Before 1987             | Not Available Before 1987 | Not Available Before 1987 | Not Available Before 1987 | Not Available Before 1987         | Not Available Before 1987 | Not Available Before 1987 | Not Available Before 1987 | 94,167           |
| 1985          |                                       |                           |                           |                           |                                   |                           |                           |                           | 97,421           |
| 1984          |                                       |                           |                           |                           |                                   |                           |                           |                           | 87,205           |
| 1983          |                                       |                           |                           |                           |                                   |                           |                           |                           | 77,983           |
| 1982          |                                       |                           |                           |                           |                                   |                           |                           |                           | 71,777           |
| 1981          |                                       |                           |                           |                           |                                   |                           |                           |                           | 61,411           |
| 1980          |                                       |                           |                           |                           |                                   |                           |                           |                           | 57,326           |
| 1979          |                                       |                           |                           |                           |                                   |                           |                           |                           | 51,096           |
| 1978          |                                       |                           |                           |                           |                                   |                           |                           |                           | 43,315           |
| 1977          |                                       |                           |                           |                           |                                   |                           |                           |                           | 34,377           |
| 1976          |                                       |                           |                           |                           |                                   |                           |                           |                           | 32,937           |
| 1975          |                                       |                           |                           |                           |                                   |                           |                           |                           | 31,916           |
| 1974          |                                       |                           |                           |                           |                                   |                           |                           |                           | 29,708           |
| 1973          |                                       |                           |                           |                           |                                   |                           |                           |                           | 24,459           |
| 1972          |                                       |                           |                           |                           |                                   |                           |                           |                           | 20,326           |
| 1971          |                                       |                           |                           |                           |                                   |                           |                           |                           | 18,515           |

Source : Fannie Mae

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010 significantly changed the presentation of these line items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Adoption of these new accounting standards resulted in consolidation of the substantial majority of mortgage-backed securities trusts and recognition of the underlying assets and debt of these trusts in the consolidated balance sheet.

<sup>2</sup> Unpaid principal balance. Beginning with 2002, includes mortgage-related securities consolidated as loans as of period end. For 1999, 2000, and 2001, includes certain loans held for investment classified as nonmortgage investments.

<sup>3</sup> Includes balloon and energy loans.

<sup>4</sup> Includes loans guaranteed by the USDA Rural Development (RD) programs.

Table 5b. Fannie Mae Mortgage Assets Detail – Part 1, Mortgage-Related Securities

| End of Period | Mortgage-Related Securities (\$ in Millions) <sup>1</sup> |                           |                           |                       |                           |                           |                           |                           |                           |                           |                           |                           |                           |  |
|---------------|---|---------------------------|---------------------------|-----------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--|
|               | Fannie Mae Securities <sup>2</sup> (\$)                   |                           |                           |                       | Others' Securities        |                           |                           |                           |                           |                           |                           |                           |                           |  |
|               | Single-Family   |                           | Multi-family (\$)         | Total Fannie Mae (\$) | Freddie Mac               |                           |                           |                           | Ginnie Mae                |                           |                           |                           | Total Private-Label (\$)  | Total Others' Securities <sup>3</sup> (\$) |
|               | Fixed-Rate (\$)   | Adjustable-Rate (\$)      |                           |                       | Single-Family             |                           | Multi-family (\$)         | Total Freddie Mac (\$)    | Single-Family             |                           | Multi-family (\$)         | Total Ginnie Mae (\$)     |                           |  |
|               |   |                           |                           |                       | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           |                           |  |
| 4Q10          | 22,069  | 5,887                     | 510                       | 28,466                | 10,008                    | 7,327                     | 0                         | 17,335                    | 1,454                     | 8                         | 24                        | 1,486                     | 70,358                    | 89,179                                     |
| 3Q10          | 25,715  | 6,078                     | 429                       | 32,222                | 11,090                    | 7,922                     | 0                         | 19,012                    | 1,048                     | 129                       | 0                         | 1,177                     | 71,869                    | 92,058                                     |
| 2Q10          | 26,986  | 6,349                     | 478                       | 33,813                | 12,576                    | 8,647                     | 0                         | 21,223                    | 1,502                     | 132                       | 8                         | 1,642                     | 73,457                    | 96,322                                     |
| 1Q10          | 28,499  | 7,848                     | 269                       | 36,616                | 17,520                    | 9,968                     | 0                         | 27,488                    | 1,067                     | 135                       | 13                        | 1,215                     | 74,906                    | 103,609                                    |
| Annual Data   |   |                           |                           |                       |                           |                           |                           |                           |                           |                           |                           |                           |                           |  |
| 2010          | 22,069  | 5,887                     | 510                       | 28,466                | 10,008                    | 7,327                     | 0                         | 17,335                    | 1,454                     | 8                         | 24                        | 1,486                     | 70,358                    | 89,179                                     |
| 2009          | 203,577   | 16,272                    | 396                       | 220,245               | 29,783                    | 11,607                    | 0                         | 41,390                    | 1,119                     | 137                       | 21                        | 1,277                     | 75,344                    | 118,011                                    |
| 2008          | 207,867   | 20,637                    | 446                       | 228,950               | 18,420                    | 14,963                    | 0                         | 33,383                    | 1,343                     | 153                       | 21                        | 1,517                     | 83,406                    | 118,306                                    |
| 2007          | 158,863   | 20,741                    | 559                       | 180,163               | 16,954                    | 14,425                    | 0                         | 31,379                    | 1,575                     | 34                        | 50                        | 1,659                     | 94,810                    | 127,848                                    |
| 2006          | 194,702   | 4,342                     | 600                       | 199,644               | 17,304                    | 12,773                    | 0                         | 30,077                    | 1,905                     | 0                         | 56                        | 1,961                     | 97,281                    | 129,319                                    |
| 2005          | 230,546   | 3,030                     | 875                       | 234,451               | 18,850                    | 9,861                     | 0                         | 28,711                    | 2,273                     | 0                         | 57                        | 2,330                     | 86,915                    | 117,956                                    |
| 2004          | 339,138   | 3,869                     | 1,397                     | 344,404               | 29,328                    | 8,235                     | 0                         | 37,563                    | 4,131                     | 1                         | 68                        | 4,200                     | 108,809                   | 150,572                                    |
| 2003          | 400,863   | 3,149                     | 1,910                     | 405,922               | 30,356                    | 558                       | 0                         | 30,914                    | 6,993                     | 0                         | 68                        | 7,061                     | 46,979                    | 84,954                                     |
| 2002          | 373,958   | 3,827                     | 2,598                     | 380,383               | 32,617                    | 207                       | 0                         | 32,824                    | 15,436                    | 0                         | 85                        | 15,521                    | 28,157                    | 76,502                                     |
| 2001          | 417,796   | 5,648                     | 8,332                     | 431,776               | 42,516                    | 287                       | 26                        | 42,829                    | 18,779                    | 1                         | 109                       | 18,889                    | 29,175                    | 90,893                                     |
| 2000          | Not Available Before 2001                                 | Not Available Before 2001 | Not Available Before 2001 | 351,066               | Not Available Before 2001 | Not Available Before 2001 | Not Available Before 2001 | 33,290                    | Not Available Before 2001 | Not Available Before 2001 | Not Available Before 2001 | 23,768                    | 34,266                    | 91,324                                     |
| 1999          |   |                           |                           | 281,714               |                           |                           |                           | 25,577                    |                           |                           |                           | 23,701                    | 31,673                    | 80,951                                     |
| 1998          |   |                           |                           | 197,375               |                           |                           |                           | 23,453                    |                           |                           |                           | 8,638                     | 19,585                    | 51,676                                     |
| 1997          |   |                           |                           | 130,444               |                           |                           |                           | 5,262                     |                           |                           |                           | 7,696                     | 5,554                     | 18,512                                     |
| 1996          |   |                           |                           | 102,607               |                           |                           |                           | 3,623                     |                           |                           |                           | 4,780                     | 1,486                     | 9,889                                      |
| 1995          |   |                           |                           | 69,729                |                           |                           |                           | 3,233                     |                           |                           |                           | 2,978                     | 747                       | 6,958                                      |
| 1994          |   |                           |                           | 43,998                |                           |                           |                           | 564                       |                           |                           |                           | 3,182                     | 1                         | 3,747                                      |
| 1993          |   |                           |                           | 24,219                |                           |                           |                           | Not Available Before 1994 |                           |                           |                           | 972                       | 2                         | 974  |
| 1992          |   |                           |                           | 20,535                |                           |                           |                           |                           |                           |                           |                           | 168                       | 3                         | 171  |
| 1991          |   |                           |                           | 16,700                |                           |                           |                           |                           |                           |                           |                           | 180                       | 93                        | 273  |
| 1990          |   |                           |                           | 11,758                |                           |                           |                           |                           |                           |                           |                           | 191                       | 352                       | 543  |
| 1989          |   |                           |                           | 11,720                |                           |                           |                           |                           |                           |                           |                           | 202                       | 831                       | 1,033                                      |
| 1988          |   |                           |                           | 8,153                 |                           |                           |                           |                           |                           |                           |                           | 26                        | 810                       | 836  |
| 1987          |   |                           |                           | 4,226                 |                           |                           |                           |                           |                           |                           |                           | Not Available Before 1988 | 1,036                     | 1,036                                      |
| 1986          |   |                           |                           | 1,606                 |                           |                           |                           |                           |                           |                           |                           |                           | 1,591                     | 1,591                                      |
| 1985          |   |                           |                           | 435                   |                           |                           |                           |                           |                           |                           |                           |                           | Not Available Before 1986 | Not Available Before 1986                  |
| 1984          |   |                           |                           | 477                   |                           |                           |                           |                           |                           |                           |                           |                           |                           |  |

Source : Fannie Mae

<sup>1</sup> Unpaid principal balance. Beginning with 2002, excludes mortgage-related securities consolidated as loans as of period end.<sup>2</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.<sup>3</sup> Excludes mortgage revenue bonds.

**Table 5b. Fannie Mae Mortgage Assets Detail – Part 2,  
Mortgage-Related Securities, Private-Label Detail**

| End of Period | Mortgage-Related Securities (\$ in Millions) <sup>1</sup> |                           |                           |                           |                           |                           |                           |                           |                  |                          |
|---------------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|------------------|--------------------------|
|               | Private-Label   |                           |                           |                           |                           |                           |                           |                           | Multifamily (\$) | Total Private-Label (\$) |
|               | Single-Family   |                           |                           |                           |                           |                           |                           |                           |                  |                          |
|               | Manufactured Housing (\$)                                 | Subprime                  |                           | Alt-A                     |                           | Other                     |                           |                           |                  |                          |
|               |   | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                  |                          |
| 4Q10          | 2,660   | 361                       | 18,050                    | 7,119                     | 15,164                    | 237                       | 1,700                     | 25,067                    | 70,358           |                          |
| 3Q10          | 2,733   | 368                       | 18,448                    | 7,380                     | 15,579                    | 243                       | 1,740                     | 25,378                    | 71,869           |                          |
| 2Q10          | 2,810   | 374                       | 18,937                    | 7,605                     | 16,108                    | 250                       | 1,779                     | 25,594                    | 73,457           |                          |
| 1Q10          | 2,894   | 381                       | 19,449                    | 7,836                     | 16,623                    | 256                       | 1,816                     | 25,651                    | 74,906           |                          |
| Annual Data   |   |                           |                           |                           |                           |                           |                           |                           |                  |                          |
| 2010          | 2,660   | 361                       | 18,050                    | 7,119                     | 15,164                    | 237                       | 1,700                     | 25,067                    | 70,358           |                          |
| 2009          | 2,485   | 391                       | 20,136                    | 7,515                     | 16,990                    | 255                       | 1,849                     | 25,723                    | 75,344           |                          |
| 2008          | 2,840   | 438                       | 24,113                    | 8,444                     | 19,414                    | 286                       | 2,021                     | 25,850                    | 83,406           |                          |
| 2007          | 3,316   | 503                       | 31,537                    | 9,221                     | 23,254                    | 319                       | 1,187                     | 25,473                    | 94,810           |                          |
| 2006          | 3,902   | 268                       | 46,608                    | 10,722                    | 24,402                    | 376                       | 1,282                     | 9,721                     | 97,281           |                          |
| 2005          | 4,622   | 431                       | 46,679                    | 11,848                    | 21,203                    | 634                       | 1,455                     | 43                        | 86,915           |                          |
| 2004          | 5,461   | 889                       | 73,768                    | 11,387                    | 14,223                    | 2,535                     | 487                       | 59                        | 108,809          |                          |
| 2003          | 6,522   | 1,437                     | 27,738                    | 8,429                     | 383                       | 1,944                     | 428                       | 98                        | 46,979           |                          |
| 2002          | 9,583   | 2,870                     | 6,534                     | 3,905                     | 20                        | 3,773                     | 1,325                     | 147                       | 28,157           |                          |
| 2001          | 10,708  | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | Not Available Before 2002 | 299                       | 29,175           |                          |
| 2000          | Not Available Before 2001                                 |                           |                           |                           |                           |                           |                           | Not Available Before 2001 | 34,266           |                          |
| 1999          |   |                           |                           |                           |                           |                           |                           |                           | 31,673           |                          |
| 1998          |   |                           |                           |                           |                           |                           |                           |                           | 19,585           |                          |
| 1997          |   |                           |                           |                           |                           |                           |                           |                           | 5,554            |                          |
| 1996          |   |                           |                           |                           |                           |                           |                           |                           | 1,486            |                          |
| 1995          |   |                           |                           |                           |                           |                           |                           |                           | 747              |                          |
| 1994          |   |                           |                           |                           |                           |                           |                           |                           | 1                |                          |
| 1993          |   |                           |                           |                           |                           |                           |                           |                           | 2                |                          |
| 1992          |   |                           |                           |                           |                           |                           |                           |                           | 3                |                          |
| 1991          |   |                           |                           |                           |                           |                           |                           |                           | 93               |                          |
| 1990          |   |                           |                           |                           |                           |                           |                           |                           | 352              |                          |
| 1989          |   |                           |                           |                           |                           |                           |                           |                           | 831              |                          |
| 1988          |   |                           |                           |                           |                           |                           |                           |                           | 810              |                          |
| 1987          |   |                           |                           |                           |                           |                           |                           |                           | 1,036            |                          |
| 1986          |   |                           |                           |                           |                           |                           |                           |                           | 1,591            |                          |

Source : Fannie Mae

<sup>1</sup> Unpaid principal balance.



**Table 5b. Fannie Mae Mortgage Assets Detail – Part 3,  
Mortgage-Related Securities**

| End of Period      | Mortgage-Related Securities (\$ in Millions) |  | (\$ in Millions)   |  |
|--------------------|--|--|--|--|
|                    | Mortgage Revenue Bonds <sup>1</sup><br>(\$)  | Total Mortgage-Related Securities <sup>1,2</sup><br>(\$) | Unamortized Premiums, Discounts, Deferred Adjustments, & Fair-Value Adjustments on Securities and Loans <sup>2,3</sup><br>(\$) | Total Mortgage Assets <sup>2</sup><br>(\$) |
| <b>4Q10</b>        | 12,525                                       | 130,170  | (16,395)   | 3,103,772                                  |
| <b>3Q10</b>        | 13,137                                       | 137,417  | (17,651)   | 3,096,803                                  |
| <b>2Q10</b>        | 13,504                                       | 143,639  | (24,133)   | 3,111,240                                  |
| <b>1Q10</b>        | 13,916                                       | 154,141  | (28,289)   | 3,127,688                                  |
| <b>Annual Data</b> |  |  |  |  |
| <b>2010</b>        | 12,525                                       | 130,170  | (16,395)   | 3,103,772                                  |
| <b>2009</b>        | 14,453                                       | 352,709  | (23,981)   | 745,271                                    |
| <b>2008</b>        | 15,447                                       | 362,703  | (24,207)   | 767,989                                    |
| <b>2007</b>        | 16,315                                       | 324,326  | (4,283)  | 723,620                                    |
| <b>2006</b>        | 16,924                                       | 345,887  | (2,498)  | 726,434                                    |
| <b>2005</b>        | 18,802                                       | 371,209  | (1,086)  | 736,803                                    |
| <b>2004</b>        | 22,076                                       | 517,052  | 7,985  | 925,194                                    |
| <b>2003</b>        | 20,359                                       | 511,235  | 10,721   | 919,589                                    |
| <b>2002</b>        | 19,650                                       | 476,535  | 20,848   | 820,627                                    |
| <b>2001</b>        | 18,377                                       | 541,046  | (2,104)  | 706,347                                    |
| <b>2000</b>        | 15,227                                       | 457,617  | (2,520)  | 607,731                                    |
| <b>1999</b>        | 12,171                                       | 374,836  | (964)  | 523,103                                    |
| <b>1998</b>        | 9,685  | 258,736  | 919  | 415,434                                    |
| <b>1997</b>        | 7,620  | 156,576  | (86)   | 316,592                                    |
| <b>1996</b>        | 6,665  | 119,161  | (525)  | 286,527                                    |
| <b>1995</b>        | 5,343  | 82,030   | (643)  | 252,868                                    |
| <b>1994</b>        | 3,403  | 51,148   | (1,242)  | 220,815                                    |
| <b>1993</b>        | 2,519  | 27,712   | (692)  | 190,169                                    |
| <b>1992</b>        | 2,816  | 23,522   | (1,859)  | 156,260                                    |
| <b>1991</b>        | 2,759  | 19,732   | (2,304)  | 126,679                                    |
| <b>1990</b>        | 2,530  | 14,831   | (2,562)  | 114,066                                    |
| <b>1989</b>        | 2,239  | 14,992   | (2,740)  | 107,981                                    |
| <b>1988</b>        | 1,804  | 10,793   | (2,914)  | 100,099                                    |
| <b>1987</b>        | 1,866  | 7,128  | (3,081)  | 93,665                                     |
| <b>1986</b>        | 469  | Not Available Before 1987                                | (3,710)  | 94,123                                     |
| <b>1985</b>        | Not Available Before 1986                    |  | (4,040)  | 95,250                                     |
| <b>1984</b>        |  |  | (3,974)  | 84,695                                     |
| <b>1983</b>        |  |  | (3,009)  | 75,782                                     |
| <b>1982</b>        |  |  | (2,458)  | 69,842                                     |
| <b>1981</b>        |  |  | (1,783)  | 59,949                                     |
| <b>1980</b>        |  |  | (1,738)  | 55,878                                     |
| <b>1979</b>        |  |  | (1,320)  | 49,777                                     |
| <b>1978</b>        |  |  | (1,212)  | 42,103                                     |
| <b>1977</b>        |  |  | (1,125)  | 33,252                                     |
| <b>1976</b>        |  |  | (1,162)  | 31,775                                     |
| <b>1975</b>        |  |  | (1,096)  | 30,821                                     |
| <b>1974</b>        |  |  | (1,042)  | 28,665                                     |
| <b>1973</b>        |  |  | (870)  | 23,579                                     |
| <b>1972</b>        |  |  | (674)  | 19,650                                     |
| <b>1971</b>        |  |  | (629)  | 17,886                                     |

Source : Fannie Mae

<sup>1</sup> Unpaid principal balance.<sup>2</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Adoption of these new accounting standards resulted in

consolidation of the substantial majority of mortgage-backed securities trusts and recognition underlying assets and debt of these trusts in the consolidated balance sheet.

<sup>3</sup> Includes unamortized premiums, discounts, deferred adjustments, and fair-value adjustments on securities and loans. Beginning in 2002, amounts include fair-value adjustments and impairments on mortgage-related securities and securities commitments classified as trading and available-for-sale. Excludes allowance for loan losses on loans held for investment.

**Table 6. Fannie Mae Financial Derivatives**

| End of Period      | Financial Derivatives - Notional Amount Outstanding (\$ in Millions) |   |                                    |  |  |               |               |
|--------------------|--|---|------------------------------------|--|--|---------------|---------------|
|                    | Interest Rate Swaps <sup>1</sup><br>(\$)                             | Interest Rate Caps, Floors, and Corridors<br>(\$) | Foreign Currency Contracts<br>(\$) | OTC Futures, Options, and Forward Rate Agreements <sup>2</sup><br>(\$) | Mandatory Mortgage Purchase & Sell Commitments<br>(\$) | Other<br>(\$) | Total<br>(\$) |
| <b>4Q10</b>        | 502,578  | 7,000   | 1,560                              | 176,010  | 119,870  | 0             | 807,018       |
| <b>3Q10</b>        | 533,714  | 7,000   | 1,492                              | 188,240  | 147,405  | 0             | 877,851       |
| <b>2Q10</b>        | 555,928  | 7,000   | 1,307                              | 188,910  | 97,802   | 0             | 850,947       |
| <b>1Q10</b>        | 549,118  | 7,000   | 1,409                              | 168,155  | 87,270   | 0             | 812,952       |
| <b>Annual Data</b> |  |   |                                    |  |  |               |               |
| <b>2010</b>        | 502,578  | 7,000   | 1,560                              | 176,010  | 119,870  | 0             | 807,018       |
| <b>2009</b>        | 661,990  | 7,000   | 1,537                              | 174,680  | 121,947  | 0             | 967,154       |
| <b>2008</b>        | 1,023,384  | 500   | 1,652                              | 173,060  | 71,236   | 0             | 1,269,832     |
| <b>2007</b>        | 671,274  | 2,250   | 2,559                              | 210,381  | 55,366   | 0             | 941,830       |
| <b>2006</b>        | 516,571  | 14,000  | 4,551                              | 210,271  | 39,928   | 0             | 785,321       |
| <b>2005</b>        | 317,470  | 33,000  | 5,645                              | 288,000  | 39,194   | 0             | 683,309       |
| <b>2004</b>        | 256,216  | 104,150   | 11,453                             | 318,275  | 40,600   | 0             | 730,694       |
| <b>2003</b>        | 598,288  | 130,350   | 5,195                              | 305,175  | 43,560   | 0             | 1,082,568     |
| <b>2002</b>        | 253,211  | 122,419   | 3,932                              | 275,625  | Not Available Before 2003                              | 0             | 655,187       |
| <b>2001</b>        | 299,953  | 75,893  | 8,493                              | 148,800  |  | 0             | 533,139       |
| <b>2000</b>        | 227,651  | 33,663  | 9,511                              | 53,915   |  | 0             | 324,740       |
| <b>1999</b>        | 192,032  | 28,950  | 11,507                             | 41,081   |  | 1,400         | 274,970       |
| <b>1998</b>        | 142,846  | 14,500  | 12,995                             | 13,481   |  | 3,735         | 187,557       |
| <b>1997</b>        | 149,673  | 100   | 9,968                              | 0  |  | 1,660         | 161,401       |
| <b>1996</b>        | 158,140  | 300   | 2,429                              | 0  |  | 350           | 161,219       |
| <b>1995</b>        | 125,679  | 300   | 1,224                              | 29   |  | 975           | 128,207       |
| <b>1994</b>        | 87,470   | 360   | 1,023                              | 0  |  | 1,465         | 90,317        |
| <b>1993</b>        | 49,458   | 360   | 1,023                              | 0  |  | 1,425         | 52,265        |
| <b>1992</b>        | 24,130   | 0   | 1,177                              | 0  |  | 1,350         | 26,658        |
| <b>1991</b>        | 9,100  | 0   | Not Available Before 1992          | 50   |  | 1,050         | 10,200        |
| <b>1990</b>        | 4,800  | 0   |                                    | 25   |  | 1,700         | 6,525         |

Source : Fannie Mae

<sup>1</sup> Beginning in 2002, includes mortgage-backed securities options, swap credit enhancements, and forward-starting debt. Forward-starting debt is a commitment to issue debt at some future time (generally to fund a purchase or commitment that starts at the agreed future time).

<sup>2</sup> Beginning in 2010, includes exchange-traded futures, which totaled \$245 million at year-end 2010.

Table 7. Fannie Mae Nonmortgage Investments

| End of Period      | Nonmortgage Investments (\$ in Millions) <sup>1</sup> |                              |   |   |                           |            |
|--------------------|---|------------------------------|---|---|---------------------------|------------|
|                    | Federal Funds and Eurodollars (\$)                    | Asset-Backed Securities (\$) | Repurchase Agreements <sup>2</sup> (\$) | Commercial Paper and Corporate Debt <sup>3</sup> (\$) | Other <sup>4</sup> (\$)   | Total (\$) |
| <b>4Q10</b>        | 5,000   | 5,321                        | 6,750                                   | 0   | 27,432                    | 44,503     |
| <b>3Q10</b>        | 5,000   | 6,638                        | 15,000                                  | 0   | 38,775                    | 65,413     |
| <b>2Q10</b>        | 10,100  | 7,103                        | 27,500                                  | 0   | 45,712                    | 90,415     |
| <b>1Q10</b>        | 13,300  | 7,991                        | 49,000                                  | 176   | 35,650                    | 106,117    |
| <b>Annual Data</b> |   |                              |   |   |                           |            |
| <b>2010</b>        | 5,000   | 5,321                        | 6,750                                   | 0   | 27,432                    | 44,503     |
| <b>2009</b>        | 44,900  | 8,515                        | 4,000                                   | 364   | 3                         | 57,782     |
| <b>2008</b>        | 45,910  | 10,598                       | 8,000                                   | 6,037   | 1,005                     | 71,550     |
| <b>2007</b>        | 43,510  | 15,511                       | 5,250                                   | 13,515  | 9,089                     | 86,875     |
| <b>2006</b>        | 9,410   | 18,914                       | 0                                       | 27,604  | 1,055                     | 56,983     |
| <b>2005</b>        | 8,900   | 19,190                       | 0                                       | 16,979  | 947                       | 46,016     |
| <b>2004</b>        | 3,860   | 25,644                       | 70                                      | 16,435  | 1,829                     | 47,839     |
| <b>2003</b>        | 12,575  | 26,862                       | 111                                     | 17,700  | 2,270                     | 59,518     |
| <b>2002</b>        | 150   | 22,312                       | 181                                     | 14,659  | 2,074                     | 39,376     |
| <b>2001</b>        | 16,089  | 20,937                       | 808                                     | 23,805  | 4,343                     | 65,982     |
| <b>2000</b>        | 7,539   | 17,512                       | 87                                      | 8,893   | 18,316                    | 52,347     |
| <b>1999</b>        | 4,837   | 19,207                       | 122                                     | 1,723   | 11,410                    | 37,299     |
| <b>1998</b>        | 7,926   | 20,993                       | 7,556                                   | 5,155   | 16,885                    | 58,515     |
| <b>1997</b>        | 19,212  | 16,639                       | 6,715                                   | 11,745  | 10,285                    | 64,596     |
| <b>1996</b>        | 21,734  | 14,635                       | 4,667                                   | 6,191   | 9,379                     | 56,606     |
| <b>1995</b>        | 19,775  | 9,905                        | 10,175                                  | 8,629   | 8,789                     | 57,273     |
| <b>1994</b>        | 17,593  | 3,796                        | 9,006                                   | 7,719   | 8,221                     | 46,335     |
| <b>1993</b>        | 4,496   | 3,557                        | 4,684                                   | 0   | 8,659                     | 21,396     |
| <b>1992</b>        | 6,587   | 4,124                        | 3,189                                   | 0   | 5,674                     | 19,574     |
| <b>1991</b>        | 2,954   | 2,416                        | 2,195                                   | 0   | 2,271                     | 9,836      |
| <b>1990</b>        | 5,329   | 1,780                        | 951                                     | 0   | 1,808                     | 9,868      |
| <b>1989</b>        | 5,158   | 1,107                        | 0                                       | 0   | 2,073                     | 8,338      |
| <b>1988</b>        | 4,125   | 481                          | 0                                       | 0   | 683                       | 5,289      |
| <b>1987</b>        | 2,559   | 25                           | 0                                       | 0   | 884                       | 3,468      |
| <b>1986</b>        | 1,530   | 0                            | 0                                       | 0   | 245                       | 1,775      |
| <b>1985</b>        | 1,391   | 0                            | 0                                       | 0   | 75                        | 1,466      |
| <b>1984</b>        | 1,575   | 0                            | 0                                       | 0   | 265                       | 1,840      |
| <b>1983</b>        | 9   | 0                            | 0                                       | 0   | 227                       | 236        |
| <b>1982</b>        | 1,799   | 0                            | 0                                       | 0   | 631                       | 2,430      |
| <b>1981</b>        | Not Available Before 1982                             | Not Available Before 1982    | Not Available Before 1982               | Not Available Before 1982                             | Not Available Before 1982 | 1,047      |
| <b>1980</b>        |   |                              |   |   |                           | 1,556      |
| <b>1979</b>        |   |                              |   |   |                           | 843        |
| <b>1978</b>        |   |                              |   |   |                           | 834        |
| <b>1977</b>        |   |                              |   |   |                           | 318        |
| <b>1976</b>        |   |                              |   |   |                           | 245        |
| <b>1975</b>        |   |                              |   |   |                           | 239        |
| <b>1974</b>        |   |                              |   |   |                           | 466        |
| <b>1973</b>        |   |                              |   |   |                           | 227        |
| <b>1972</b>        |   |                              |   |   |                           | 268        |
| <b>1971</b>        |   |                              |   |   |                           | 349        |

Source : Fannie Mae

<sup>1</sup> Data reflect unpaid principal balance net of unamortized purchase premium, discounts and cost-basis adjustments, fair-value adjustments and impairments on available-for-sale and trading securities. Before 1982, the majority of nonmortgage investments consisted of U.S. government and agency securities.

<sup>2</sup> Since 2005, advances to lenders have not been included in the data. Amounts for years before 2005

may include or consist of advances to lenders. Includes tri-party repurchase agreements.

<sup>3</sup> Includes commercial paper, floating-rate notes, taxable auction notes, corporate bonds and auction-rate preferred stock. Starting with 2006, medium-term notes previously reported in "Other" are included in commercial paper.

<sup>4</sup> Includes Treasury securities and Yankee Bonds and domestic certificates of deposit.

**Table 8. Fannie Mae Mortgage Asset Quality**

| End of Period      | Mortgage Asset Quality                                  |   |  |  |  |
|--------------------|---|---|--|--|--|
|                    | Single-Family Serious Delinquency Rate <sup>1</sup> (%) | Multifamily Serious Delinquency Rate <sup>2</sup> (%) | Credit Losses as a Proportion of the Guarantee Book of Business <sup>3,4</sup> (%) | REO as a Proportion of the Guarantee Book of Business <sup>4</sup> (%) | Credit-Enhanced Outstanding as a Proportion of the Guarantee Book of Business <sup>5</sup> (%) |
| <b>4Q10</b>        | 4.48  | 0.71  | 0.42   | 0.53   | 19.1   |
| <b>3Q10</b>        | 4.56  | 0.65  | 1.08   | 0.58   | 19.4   |
| <b>2Q10</b>        | 4.99  | 0.80  | 0.92   | 0.46   | 19.7   |
| <b>1Q10</b>        | 5.47  | 0.79  | 0.67   | 0.40   | 20.7   |
| <b>Annual Data</b> |   |   |  |  |  |
| <b>2010</b>        | 4.48  | 0.71  | 0.77   | 0.53   | 19.1   |
| <b>2009</b>        | 5.38  | 0.63  | 0.45   | 0.30   | 21.2   |
| <b>2008</b>        | 2.42  | 0.30  | 0.23   | 0.23   | 23.9   |
| <b>2007</b>        | 0.98  | 0.08  | 0.05   | 0.13   | 23.7   |
| <b>2006</b>        | 0.65  | 0.08  | 0.02   | 0.09   | 22.3   |
| <b>2005</b>        | 0.79  | 0.32  | 0.01   | 0.08   | 21.8   |
| <b>2004</b>        | 0.63  | 0.11  | 0.01   | 0.07   | 20.5   |
| <b>2003</b>        | 0.60  | 0.29  | 0.01   | 0.06   | 22.6   |
| <b>2002</b>        | 0.57  | 0.08  | 0.01   | 0.05   | 26.8   |
| <b>2001</b>        | 0.55  | 0.27  | 0.01   | 0.04   | 34.2   |
| <b>2000</b>        | 0.45  | 0.07  | 0.01   | 0.05   | 40.4   |
| <b>1999</b>        | 0.47  | 0.11  | 0.01   | 0.06   | 20.9   |
| <b>1998</b>        | 0.56  | 0.23  | 0.03   | 0.08   | 17.5   |
| <b>1997</b>        | 0.62  | 0.37  | 0.04   | 0.10   | 12.8   |
| <b>1996</b>        | 0.58  | 0.68  | 0.05   | 0.11   | 10.5   |
| <b>1995</b>        | 0.56  | 0.81  | 0.05   | 0.08   | 10.6   |
| <b>1994</b>        | 0.47  | 1.21  | 0.06   | 0.10   | 10.2   |
| <b>1993</b>        | 0.48  | 2.34  | 0.04   | 0.10   | 10.6   |
| <b>1992</b>        | 0.53  | 2.65  | 0.04   | 0.09   | 15.6   |
| <b>1991</b>        | 0.64  | 3.62  | 0.04   | 0.07   | 22.0   |
| <b>1990</b>        | 0.58  | 1.70  | 0.06   | 0.09   | 25.9   |
| <b>1989</b>        | 0.69  | 3.20  | 0.07   | 0.14   | Not Available Before 1990  |
| <b>1988</b>        | 0.88  | 6.60  | 0.11   | 0.15   |  |
| <b>1987</b>        | 1.12  | Not Available Before 1988                             | 0.11   | 0.18   |  |
| <b>1986</b>        | 1.38  |   | 0.12   | 0.22   |  |
| <b>1985</b>        | 1.48  |   | 0.13   | 0.32   |  |
| <b>1984</b>        | 1.65  |   | 0.09   | 0.33   |  |
| <b>1983</b>        | 1.49  |   | 0.05   | 0.35   |  |
| <b>1982</b>        | 1.41  |   | 0.01   | 0.20   |  |
| <b>1981</b>        | 0.96  |   | 0.01   | 0.13   |  |
| <b>1980</b>        | 0.90  |   | 0.01   | 0.09   |  |
| <b>1979</b>        | 0.56  |   | 0.02   | 0.11   |  |
| <b>1978</b>        | 0.55  |   | 0.02   | 0.18   |  |
| <b>1977</b>        | 0.46  |   | 0.02   | 0.26   |  |
| <b>1976</b>        | 1.58  |   | 0.03   | 0.27   |  |
| <b>1975</b>        | 0.56  |   | 0.03   | 0.51   |  |
| <b>1974</b>        | 0.51  |   | 0.02   | 0.52   |  |
| <b>1973</b>        | Not Available Before 1974                               |   | 0.00   | 0.61   |  |
| <b>1972</b>        |   |   | 0.02   | 0.98   |  |
| <b>1971</b>        |   |   | 0.01   | 0.59   |  |

Source : Fannie Mae

- <sup>1</sup> Single-family loans are seriously delinquent when the borrower has missed three or more consecutive monthly payments and the loan has not been brought current. Rate is calculated using the number of conventional single-family loans owned and backing Fannie Mae mortgage-backed securities (MBS). Includes loans referred to foreclosure proceedings but not yet foreclosed. Before 1988, all data included all seriously delinquent loans for which Fannie Mae had primary risk of loss. Beginning with 1998, data include all seriously delinquent conventional loans owned and backing Fannie Mae MBS with and without primary mortgage insurance or credit enhancement. Data before 1992 include loans and securities in relief or bankruptcy, even if the loans were less than 90 days delinquent, calculated based on number of loans.
- <sup>2</sup> Before 1998, data include multifamily loans for which Fannie Mae had primary risk of loss. Beginning in 1998, data include all multifamily loans and securities 60 days or more past due. For 1998-2001, rate is calculated using the mortgage credit book of business as the denominator. Beginning in 2002, rate is calculated using unpaid principal balance of delinquent multifamily loans owned by Fannie Mae or underlying Fannie Mae guaranteed securities as the denominator.

- <sup>3</sup> Credit losses are charge-offs, net of recoveries and foreclosed property expense (income). Average balances used to calculate ratios subsequent to 1994. Quarterly data are annualized. Beginning in 2005, credit losses exclude the impact of fair-value losses of credit impaired loans acquired from MBS trusts. Beginning in 2008, credit losses also exclude the impact of HomeSaver Advance fair-value losses.
- <sup>4</sup> Guarantee book of business refers to the sum of the unpaid principal balance of (1) mortgage loans held as investments; (2) Fannie Mae MBS held as investments; (3) Fannie Mae MBS held by third parties; and (4) credit enhancements that Fannie Mae provides on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held for investment that Fannie Mae does not guarantee. Before 2005, the ratio was based on the mortgage credit book of business, which includes non-Fannie Mae mortgage-related securities held as investments that are not guaranteed.
- <sup>5</sup> Beginning in 2000, credit-enhanced was expanded to include primary mortgage insurance. Amounts for periods before 2000 reflect proportion of assets held for investment with additional recourse from a third party to accept some or all of the expected losses on defaulted mortgages.

Table 9. Fannie Mae Capital

| End of Period | Capital (\$ in Millions) <sup>1</sup> |   |   |                                 |  |  |                                    |  |  |   |
|---------------|---------------------------------------|---|---|---------------------------------|--|--|------------------------------------|--|--|---|
|               | Minimum Capital Requirement           |   |   | Risk-Based Capital Requirement  |  |  | Market Capitalization <sup>7</sup> | Core Capital/Total Assets <sup>8</sup> | Core Capital/Total Assets Plus Unconsolidated MBS <sup>8,9</sup> | Common Share Dividend Payout Rate <sup>10</sup> |
|               | Core Capital (\$)                     | Minimum Capital Requirement <sup>2</sup> (\$) | Minimum Capital Surplus (Deficit) <sup>3</sup> (\$) | Total Capital <sup>4</sup> (\$) | Risk-Based Capital Requirement <sup>5</sup> (\$) | Risk-Based Capital Surplus (Deficit) <sup>6</sup> (\$) |                                    |  |  |   |
| 4Q10          | (89,516)                              | 33,676  | (123,192)   | N/A                             | N/A  | N/A  | 336                                | (2.78)                                 | (2.76)   | N/A   |
| 3Q10          | (87,445)                              | 34,313  | (121,758)   | N/A                             | N/A  | N/A  | 306                                | (2.71)                                 | (2.69)   | N/A   |
| 2Q10          | (83,997)                              | 34,967  | (118,964)   | N/A                             | N/A  | N/A  | 383                                | (2.58)                                 | (2.56)   | N/A   |
| 1Q10          | (80,898)                              | 34,426  | (115,323)   | N/A                             | N/A  | N/A  | 1,172                              | (2.46)                                 | (2.44)   | N/A   |
| Annual Data   |                                       |   |   |                                 |  |  |                                    |  |  |   |
| 2010          | (89,516)                              | 33,676  | (123,192)   | N/A                             | N/A  | N/A  | 336                                | (2.78)                                 | (2.76)   | N/A   |
| 2009          | (74,540)                              | 33,057  | (107,597)   | N/A                             | N/A  | N/A  | 1,314                              | (8.58)                                 | (2.26)   | N/A   |
| 2008          | (8,641)                               | 33,552  | (42,193)  | N/A                             | N/A  | N/A  | 825                                | (0.95)                                 | (0.27)   | N/M   |
| 2007          | 45,373                                | 31,927  | 13,446  | 48,658                          | 24,700   | 23,958   | 38,946                             | 5.14                                   | 1.51   | N/M   |
| 2006          | 41,950                                | 29,359  | 12,591  | 42,703                          | 26,870   | 15,833   | 57,735                             | 4.97                                   | 1.60   | 32.4  |
| 2005          | 39,433                                | 28,233  | 11,200  | 40,091                          | 12,636   | 27,455   | 47,373                             | 4.73                                   | 1.62   | 17.2  |
| 2004          | 34,514                                | 32,121  | 2,393   | 35,196                          | 10,039   | 25,157   | 69,010                             | 3.38                                   | 1.42   | 42.1  |
| 2003          | 26,953                                | 31,816  | (4,863)   | 27,487                          | 27,221   | 266  | 72,838                             | 2.64                                   | 1.16   | 20.8  |
| 2002          | 20,431                                | 27,688  | (7,257)   | 20,831                          | 17,434   | 3,397  | 63,612                             | 2.26                                   | 1.05   | 34.5  |
| 2001          | 25,182                                | 24,182  | 1,000   | 25,976                          | Not Applicable Before 2002                       | Not Applicable Before 2002                             | 79,281                             | 3.15                                   | 1.51   | 23.0  |
| 2000          | 20,827                                | 20,293  | 533   | 21,634                          |  |  | 86,643                             | 3.08                                   | 1.51   | 26.0  |
| 1999          | 17,876                                | 17,770  | 106   | 18,677                          |  |  | 63,651                             | 3.11                                   | 1.43   | 28.8  |
| 1998          | 15,465                                | 15,334  | 131   | 16,257                          |  |  | 75,881                             | 3.19                                   | 1.38   | 29.5  |
| 1997          | 13,793                                | 12,703  | 1,090   | 14,575                          |  |  | 59,167                             | 3.52                                   | 1.42   | 29.4  |
| 1996          | 12,773                                | 11,466  | 1,307   | 13,520                          |  |  | 39,932                             | 3.64                                   | 1.42   | 30.4  |
| 1995          | 10,959                                | 10,451  | 508   | 11,703                          |  |  | 33,812                             | 3.46                                   | 1.32   | 34.6  |
| 1994          | 9,541                                 | 9,415   | 126   | 10,368                          |  |  | 19,882                             | 3.50                                   | 1.26   | 30.8  |
| 1993          | 8,052                                 | 7,064   | 988   | 8,893                           |  |  | 21,387                             | 3.71                                   | 1.17   | 26.8  |
| 1992          | Not Applicable Before 1993            | Not Applicable Before 1993                    | Not Applicable Before 1993                          | Not Applicable Before 1993      |  |  | 20,874                             | Not Applicable Before 1993             | Not Applicable Before 1993                                       | 23.2  |
| 1991          |                                       |   |   |                                 |  |  | 18,836                             |  |  | 21.3  |
| 1990          |                                       |   |   |                                 |  |  | 8,490                              |  |  | 14.7  |
| 1989          |                                       |   |   |                                 |  |  | 8,092                              |  |  | 12.8  |
| 1988          |                                       |   |   |                                 |  |  | 3,992                              |  |  | 11.2  |
| 1987          |                                       |   |   |                                 |  |  | 2,401                              |  |  | 11.7  |
| 1986          |                                       |   |   |                                 |  |  | 3,006                              |  |  | 8.0   |
| 1985          |                                       |   |   |                                 |  |  | 1,904                              |  |  | 30.1  |
| 1984          |                                       |   |   |                                 |  |  | 1,012                              |  |  | N/A   |
| 1983          |                                       |   |   |                                 |  |  | 1,514                              |  |  | 13.9  |
| 1982          |                                       |   |   |                                 |  |  | 1,603                              |  |  | N/A   |
| 1981          |                                       |   |   |                                 |  |  | 502                                |  |  | N/A   |
| 1980          |                                       |   |   |                                 |  |  | 702                                |  |  | 464.2   |
| 1979          |                                       |   |   |                                 |  |  | Not Available Before 1980          |  |  | 45.7  |
| 1978          |                                       |   |   |                                 |  |  |                                    |  |  | 30.3  |
| 1977          |                                       |   |   |                                 |  |  |                                    |  |  | 31.8  |
| 1976          |                                       |   |   |                                 |  |  |                                    |  |  | 33.6  |
| 1975          |                                       |   |   |                                 |  |  |                                    |  |  | 31.8  |
| 1974          |                                       |   |   |                                 |  |  |                                    |  |  | 29.6  |
| 1973          |                                       |   |   |                                 |  |  |                                    |  |  | 18.1  |
| 1972          |                                       |   |   |                                 |  |  |                                    |  |  | 15.2  |
| 1971          |                                       |   |   |                                 |  |  |                                    |  |  | 18.7  |

Source : Fannie Mae and FHFA

N/A = not applicable N/M = not meaningful

<sup>1</sup> On October 9, 2008, FHFA suspended capital classifications of Fannie Mae. As of the fourth quarter of 2008, neither the existing statutory nor the FHFA-directed regulatory capital requirements are binding and will not be binding during conservatorship.

<sup>2</sup> Beginning in the third quarter of 2005, Fannie Mae was required to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. That requirement was reduced to 20 percent as of the first quarter of 2008 and to 15 percent as of the second quarter of 2008. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the additional capital requirements.

<sup>3</sup> Minimum capital surplus is the difference between core capital and minimum capital requirement.

<sup>4</sup> Total capital is core capital plus the total allowance for loan losses and guarantee liability for mortgage-backed securities (MBS), less any specific loss allowances.

<sup>5</sup> Risk-based capital requirement is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal

Housing Enterprises Financial Safety and Soundness Act of 1992. For 2004 through 2006, the requirements were calculated based on originally reported, not restated or revised, financial results.

<sup>6</sup> The difference between total capital and the risk-based capital requirement. For 2004 through 2006, the difference reflects restated and revised total capital rather than total capital originally reported by Fannie Mae and used by FHFA to make capital classifications. FHFA is not reporting on risk-based capital levels during conservatorship.

<sup>7</sup> Stock price at the end of the period multiplied by the number of outstanding common shares.

<sup>8</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of this item in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>9</sup> Unconsolidated MBS are those held by third parties.

<sup>10</sup> Common dividends declared during the period divided by net income available to common stockholders for the period.

**Table 10. Freddie Mac Mortgage Purchases**

| Period             | Business Activity (\$ in Millions) |                           |                                   |   |
|--------------------|------------------------------------|---------------------------|-----------------------------------|---|
|                    | Purchases <sup>1</sup>             |                           |                                   |   |
|                    | Single-Family (\$)                 | Multifamily (\$)          | Total Mortgages <sup>2</sup> (\$) | Mortgage-Related Securities <sup>3</sup> (\$) |
| <b>4Q10</b>        | 127,599                            | 6,870                     | 134,469                           | 18,781  |
| <b>3Q10</b>        | 92,689                             | 3,435                     | 96,124                            | 18,712  |
| <b>2Q10</b>        | 77,042                             | 2,954                     | 79,996                            | 3,555   |
| <b>1Q10</b>        | 89,048                             | 2,113                     | 91,161                            | 10,780  |
| <b>Annual Data</b> |                                    |                           |                                   |   |
| <b>2010</b>        | 386,378                            | 15,372                    | 401,750                           | 51,828  |
| <b>2009</b>        | 475,350                            | 16,571                    | 491,921                           | 238,835                                       |
| <b>2008</b>        | 357,585                            | 23,972                    | 381,557                           | 297,614                                       |
| <b>2007</b>        | 466,066                            | 21,645                    | 487,711                           | 231,039                                       |
| <b>2006</b>        | 351,270                            | 13,031                    | 364,301                           | 241,205                                       |
| <b>2005</b>        | 381,673                            | 11,172                    | 392,845                           | 325,575                                       |
| <b>2004</b>        | 354,812                            | 12,712                    | 367,524                           | 223,299                                       |
| <b>2003</b>        | 701,483                            | 15,292                    | 716,775                           | 385,078                                       |
| <b>2002</b>        | 533,194                            | 10,654                    | 543,848                           | 299,674                                       |
| <b>2001</b>        | 384,124                            | 9,510                     | 393,634                           | 248,466                                       |
| <b>2000</b>        | 168,013                            | 6,030                     | 174,043                           | 91,896  |
| <b>1999</b>        | 232,612                            | 7,181                     | 239,793                           | 101,898                                       |
| <b>1998</b>        | 263,490                            | 3,910                     | 267,400                           | 128,446                                       |
| <b>1997</b>        | 115,160                            | 2,241                     | 117,401                           | 35,385  |
| <b>1996</b>        | 122,850                            | 2,229                     | 125,079                           | 36,824  |
| <b>1995</b>        | 89,971                             | 1,565                     | 91,536                            | 39,292  |
| <b>1994</b>        | 122,563                            | 847                       | 123,410                           | 19,817  |
| <b>1993</b>        | 229,051                            | 191                       | 229,242                           | Not Available Before 1994                     |
| <b>1992</b>        | 191,099                            | 27                        | 191,126                           |   |
| <b>1991</b>        | 99,729                             | 236                       | 99,965                            |   |
| <b>1990</b>        | 74,180                             | 1,338                     | 75,518                            |   |
| <b>1989</b>        | 76,765                             | 1,824                     | 78,589                            |   |
| <b>1988</b>        | 42,884                             | 1,191                     | 44,075                            |   |
| <b>1987</b>        | 74,824                             | 2,016                     | 76,840                            |   |
| <b>1986</b>        | 99,936                             | 3,538                     | 103,474                           |   |
| <b>1985</b>        | 42,110                             | 1,902                     | 44,012                            |   |
| <b>1984</b>        | Not Available Before 1985          | Not Available Before 1985 | 21,885                            |   |
| <b>1983</b>        |                                    |                           | 22,952                            |   |
| <b>1982</b>        |                                    |                           | 23,671                            |   |
| <b>1981</b>        |                                    |                           | 3,744                             |   |
| <b>1980</b>        |                                    |                           | 3,690                             |   |
| <b>1979</b>        |                                    |                           | 5,716                             |   |
| <b>1978</b>        |                                    |                           | 6,524                             |   |
| <b>1977</b>        |                                    |                           | 4,124                             |   |
| <b>1976</b>        |                                    |                           | 1,129                             |   |
| <b>1975</b>        |                                    |                           | 1,716                             |   |
| <b>1974</b>        |                                    |                           | 2,185                             |   |
| <b>1973</b>        |                                    |                           | 1,334                             |   |
| <b>1972</b>        |                                    |                           | 1,265                             |   |
| <b>1971</b>        |                                    |                           | 778                               |   |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

<sup>2</sup> Consists of loans purchased from lenders, as well as those loans covered under other guarantee commitments.

<sup>3</sup> Not included in total mortgages. For 2002 through 2010, amounts include non-Freddie Mac mortgage-related securities as well as repurchased Freddie Mac mortgage-backed securities (MBS) held for investment. Before 2002, amounts exclude Freddie Mac real estate mortgage investment conduits and other structured securities backed by Ginnie Mae MBS. Amounts in 2010 include purchases of Freddie Mac MBS, many of which are accounted for as debt extinguishments under Generally Accepted Accounting Principles rather than as an investment in securities.



Table 10a. Freddie Mac Mortgage Purchases Detail by Type of Loan

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                                   |              |            |                 |                      |            |                                    |                       |             |                                   |                               |
|-------------|---|-----------------------------------|--------------|------------|-----------------|----------------------|------------|------------------------------------|-----------------------|-------------|-----------------------------------|-------------------------------|
|             | Single-Family Mortgages                 |                                   |              |            |                 |                      |            |                                    | Multifamily Mortgages |             |                                   | Total Mortgage Purchases (\$) |
|             | Conventional                            |                                   |              |            | FHA/VA          |                      |            | Total Single-Family Mortgages (\$) | Conventional (\$)     | FHA/RD (\$) | Total Multi-family Mortgages (\$) |                               |
|             | Fixed-Rate <sup>2</sup> (\$)            | Adjustable-Rate <sup>3</sup> (\$) | Seconds (\$) | Total (\$) | Fixed-Rate (\$) | Adjustable-Rate (\$) | Total (\$) |                                    |                       |             |                                   |                               |
| 4Q10        | 121,317                                 | 6,206                             | 0            | 127,523    | 76              | 0                    | 76         | 127,599                            | 6,870                 | 0           | 6,870                             | 134,469                       |
| 3Q10        | 87,908                                  | 4,633                             | 0            | 92,541     | 148             | 0                    | 148        | 92,689                             | 3,435                 | 0           | 3,435                             | 96,124                        |
| 2Q10        | 72,441                                  | 4,421                             | 0            | 76,862     | 180             | 0                    | 180        | 77,042                             | 2,954                 | 0           | 2,954                             | 79,996                        |
| 1Q10        | 86,686                                  | 2,175                             | 0            | 88,861     | 187             | 0                    | 187        | 89,048                             | 2,113                 | 0           | 2,113                             | 91,161                        |
| Annual Data |   |                                   |              |            |                 |                      |            |                                    |                       |             |                                   |                               |
| 2010        | 368,352                                 | 17,435                            | 0            | 385,787    | 591             | 0                    | 591        | 386,378                            | 15,372                | 0           | 15,372                            | 401,750                       |
| 2009        | 470,355                                 | 3,615                             | 0            | 473,970    | 1,380           | 0                    | 1,380      | 475,350                            | 16,571                | 0           | 16,571                            | 491,921                       |
| 2008        | 327,006                                 | 30,014                            | 0            | 357,020    | 565             | 0                    | 565        | 357,585                            | 23,972                | 0           | 23,972                            | 381,557                       |
| 2007        | 387,760                                 | 78,149                            | 0            | 465,909    | 157             | 0                    | 157        | 466,066                            | 21,645                | 0           | 21,645                            | 487,711                       |
| 2006        | 272,875                                 | 77,449                            | 0            | 350,324    | 946             | 0                    | 946        | 351,270                            | 13,031                | 0           | 13,031                            | 364,301                       |
| 2005        | 313,842                                 | 67,831                            | 0            | 381,673    | 0               | 0                    | 0          | 381,673                            | 11,172                | 0           | 11,172                            | 392,845                       |
| 2004        | 293,830                                 | 60,663                            | 0            | 354,493    | 319             | 0                    | 319        | 354,812                            | 12,712                | 0           | 12,712                            | 367,524                       |
| 2003        | 617,796                                 | 82,270                            | 0            | 700,066    | 1,417           | 0                    | 1,417      | 701,483                            | 15,292                | 0           | 15,292                            | 716,775                       |
| 2002        | 468,901                                 | 63,448                            | 0            | 532,349    | 845             | 0                    | 845        | 533,194                            | 10,654                | 0           | 10,654                            | 543,848                       |
| 2001        | 353,056                                 | 30,780                            | 0            | 383,836    | 288             | 0                    | 288        | 384,124                            | 9,507                 | 3           | 9,510                             | 393,634                       |
| 2000        | 145,744                                 | 21,201                            | 0            | 166,945    | 1,068           | 0                    | 1,068      | 168,013                            | 6,030                 | 0           | 6,030                             | 174,043                       |
| 1999        | 224,040                                 | 7,443                             | 0            | 231,483    | 1,129           | 0                    | 1,129      | 232,612                            | 7,181                 | 0           | 7,181                             | 239,793                       |
| 1998        | 256,008                                 | 7,384                             | 0            | 263,392    | 98              | 0                    | 98         | 263,490                            | 3,910                 | 0           | 3,910                             | 267,400                       |
| 1997        | 106,174                                 | 8,950                             | 0            | 115,124    | 36              | 0                    | 36         | 115,160                            | 2,241                 | 0           | 2,241                             | 117,401                       |
| 1996        | 116,316                                 | 6,475                             | 0            | 122,791    | 59              | 0                    | 59         | 122,850                            | 2,229                 | 0           | 2,229                             | 125,079                       |
| 1995        | 75,867                                  | 14,099                            | 0            | 89,966     | 5               | 0                    | 5          | 89,971                             | 1,565                 | 0           | 1,565                             | 91,536                        |
| 1994        | 105,902                                 | 16,646                            | 0            | 122,548    | 15              | 0                    | 15         | 122,563                            | 847                   | 0           | 847                               | 123,410                       |
| 1993        | 208,322                                 | 20,708                            | 1            | 229,031    | 20              | 0                    | 20         | 229,051                            | 191                   | 0           | 191                               | 229,242                       |
| 1992        | 175,515                                 | 15,512                            | 7            | 191,034    | 65              | 0                    | 65         | 191,099                            | 27                    | 0           | 27                                | 191,126                       |
| 1991        | 91,586                                  | 7,793                             | 206          | 99,585     | 144             | 0                    | 144        | 99,729                             | 236                   | 0           | 236                               | 99,965                        |
| 1990        | 56,806                                  | 16,286                            | 686          | 73,778     | 402             | 0                    | 402        | 74,180                             | 1,338                 | 0           | 1,338                             | 75,518                        |
| 1989        | 57,100                                  | 17,835                            | 1,206        | 76,141     | 624             | 0                    | 624        | 76,765                             | 1,824                 | 0           | 1,824                             | 78,589                        |
| 1988        | 34,737                                  | 7,253                             | 59           | 42,049     | 835             | 0                    | 835        | 42,884                             | 1,191                 | 0           | 1,191                             | 44,075                        |
| 1987        | 69,148                                  | 4,779                             | 69           | 73,996     | 828             | 0                    | 828        | 74,824                             | 2,016                 | 0           | 2,016                             | 76,840                        |
| 1986        | 96,105                                  | 2,262                             | 90           | 98,457     | 1,479           | 0                    | 1,479      | 99,936                             | 3,538                 | 0           | 3,538                             | 103,474                       |
| 1985        | 40,226                                  | 605                               | 34           | 40,865     | 1,245           | 0                    | 1,245      | 42,110                             | 1,902                 | 0           | 1,902                             | 44,012                        |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled. Activity includes issuances of other guarantee commitments for loans held by third parties.<sup>2</sup> From 2002 to 2010, includes loans guaranteed by USDA Rural Development (RD).<sup>3</sup> From 2001 to 2010, includes balloons/reset mortgages.

**Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 1**

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                           |                           |                        |                           |                           |                           |                           |                           |                           |                           |                           |                           |                             |   |
|-------------|---|---------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-----------------------------|---|
|             | Freddie Mac Securities <sup>2</sup>     |                           |                           |                        | Others' Securities        |                           |                           |                           |                           |                           |                           |                           |                           | Mortgage Revenue Bonds (\$) | Total Mortgage Related Securities <sup>3</sup> (\$) |
|             | Single-Family                           |                           | Multi-family (\$)         | Total Freddie Mac (\$) | Fannie Mae                |                           |                           |                           | Ginnie Mae <sup>3</sup>   |                           |                           |                           | Total Private-Label (\$)  |                             |   |
|             |   |                           |                           |                        | Single-Family             |                           | Multi-family (\$)         | Total Fannie Mae (\$)     | Single-Family             |                           | Multi-family (\$)         | Total Ginnie Mae (\$)     |                           |                             |   |
|             | Fixed-Rate (\$)                         | Adjustable-Rate (\$)      |                           |                        | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           |                           |                             |   |
| 4Q10        | 17,073                                  | 641                       | 125                       | 17,839                 | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 0                         | 942                       | 0                           | 18,781  |
| 3Q10        | 17,344                                  | 79                        | 31                        | 17,454                 | 0                         | 209                       | 0                         | 209                       | 0                         | 0                         | 0                         | 0                         | 1,049                     | 0                           | 18,712  |
| 2Q10        | 1,205                                   | 0                         | 170                       | 1,375                  | 0                         | 117                       | 0                         | 117                       | 0                         | 0                         | 0                         | 0                         | 2,063                     | 0                           | 3,555   |
| 1Q10        | 4,840                                   | 203                       | 56                        | 5,099                  | 0                         | 47                        | 0                         | 47                        | 0                         | 0                         | 0                         | 0                         | 5,634                     | 0                           | 10,780  |
| Annual Data |   |                           |                           |                        |                           |                           |                           |                           |                           |                           |                           |                           |                           |                             |   |
| 2010        | 40,462                                  | 923                       | 382                       | 41,767                 | 0                         | 373                       | 0                         | 373                       | 0                         | 0                         | 0                         | 0                         | 9,688                     | 0                           | 51,828  |
| 2009        | 176,974                                 | 5,414                     | 0                         | 182,388                | 43,298                    | 2,697                     | 0                         | 45,995                    | 0                         | 0                         | 27                        | 27                        | 10,245                    | 180                         | 238,835   |
| 2008        | 192,701                                 | 26,344                    | 111                       | 219,156                | 49,534                    | 18,519                    | 0                         | 68,053                    | 0                         | 0                         | 8                         | 8                         | 10,316                    | 81                          | 297,614   |
| 2007        | 111,976                                 | 26,800                    | 2,283                     | 141,059                | 2,170                     | 9,863                     | 0                         | 12,033                    | 0                         | 0                         | 0                         | 0                         | 76,134                    | 1,813                       | 231,039   |
| 2006        | 76,378                                  | 27,146                    | 0                         | 103,524                | 4,259                     | 8,014                     | 0                         | 12,273                    | 0                         | 0                         | 0                         | 0                         | 122,230                   | 3,178                       | 241,205   |
| 2005        | 106,682                                 | 29,805                    | 0                         | 136,487                | 2,854                     | 3,368                     | 0                         | 6,222                     | 64                        | 0                         | 0                         | 64                        | 179,962                   | 2,840                       | 325,575   |
| 2004        | 72,147                                  | 23,942                    | 146                       | 96,235                 | 756                       | 3,282                     | 0                         | 4,038                     | 0                         | 0                         | 0                         | 0                         | 121,082                   | 1,944                       | 223,299   |
| 2003        | Not Available Before 2004               | Not Available Before 2004 | Not Available Before 2004 | 266,989                | Not Available Before 2004 | Not Available Before 2004 | Not Available Before 2004 | 47,806                    | Not Available Before 2004 | Not Available Before 2004 | Not Available Before 2004 | 166                       | 69,154                    | 963                         | 385,078   |
| 2002        |   |                           | Before 2004               | 192,817                |                           |                           | Before 2004               | 45,798                    |                           |                           | Before 2004               | 820                       | 59,376                    | 863                         | 299,674   |
| 2001        |   |                           |                           | 157,339                |                           |                           |                           | 64,508                    |                           |                           |                           | 1,444                     | 24,468                    | 707                         | 248,466   |
| 2000        |   |                           |                           | 58,516                 |                           |                           |                           | 18,249                    |                           |                           |                           | 3,339                     | 10,304                    | 1,488                       | 91,896  |
| 1999        |   |                           |                           | 69,219                 |                           |                           |                           | 12,392                    |                           |                           |                           | 3,422                     | 15,263                    | 1,602                       | 101,898   |
| 1998        |   |                           |                           | 107,508                |                           |                           |                           | 3,126                     |                           |                           |                           | 319                       | 15,711                    | 1,782                       | 128,446   |
| 1997        |   |                           |                           | 31,296                 |                           |                           |                           | 897                       |                           |                           |                           | 326                       | 1,494                     | 1,372                       | 35,385  |
| 1996        |   |                           |                           | 33,338                 |                           |                           |                           | Not Available Before 1997 |                           |                           |                           | Not Available Before 1997 | Not Available Before 1997 | Not Available Before 1997   | 36,824  |
| 1995        |   |                           |                           | 32,534                 |                           |                           |                           |                           |                           |                           |                           | Not Available Before 1997 |                           |                             | 39,292  |
| 1994        |   |                           |                           | 19,817                 |                           |                           |                           |                           |                           |                           |                           |                           |                           |                             | 19,817  |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded, but not yet settled.

<sup>2</sup> Amounts for 2010 include purchases of Freddie Mac mortgage-backed securities (MBS), many of which are accounted for as debt extinguishments under Generally Accepted Accounting Principles rather than as an investment in securities.

<sup>3</sup> Before 2002, amounts exclude real estate mortgage investment conduits and other structured securities backed by Ginnie Mae MBS.

**Table 10b. Freddie Mac Purchases of Mortgage-Related Securities – Part 2, Private-Label Detail**

| Period      | Purchases (\$ in Millions) <sup>1</sup> |                           |                           |                           |                           |                           |                               |                           |                          |
|-------------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|---------------------------|--------------------------|
|             | Private-Label                           |                           |                           |                           |                           |                           |                               |                           | Total Private-Label (\$) |
|             | Single-Family                           |                           |                           |                           |                           |                           | Multifamily <sup>3</sup> (\$) |                           |                          |
|             | Manufactured Housing (\$)               | Subprime                  |                           | Alt-A <sup>2</sup>        |                           | Other <sup>3</sup>        |                               |                           |                          |
|             |   | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           |                               | Adjustable-Rate (\$)      |                          |
| 4Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 16                        | 0                             | 926                       | 942                      |
| 3Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 40                        | 0                             | 1,009                     | 1,049                    |
| 2Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 0                         | 0                             | 2,063                     | 2,063                    |
| 1Q10        | 0                                       | 0                         | 0                         | 0                         | 0                         | 3,116                     | 0                             | 2,518                     | 5,634                    |
| Annual Data |   |                           |                           |                           |                           |                           |                               |                           |                          |
| 2010        | 0                                       | 0                         | 0                         | 0                         | 0                         | 3,172                     | 0                             | 6,516                     | 9,688                    |
| 2009        | 0                                       | 0                         | 0                         | 0                         | 0                         | 7,874                     | 0                             | 2,371                     | 10,245                   |
| 2008        | 0                                       | 60                        | 46                        | 0                         | 618                       | 8,175                     | 0                             | 1,417                     | 10,316                   |
| 2007        | 127                                     | 843                       | 42,824                    | 702                       | 9,306                     | 48                        | 0                             | 22,284                    | 76,134                   |
| 2006        | 0                                       | 116                       | 74,645                    | 718                       | 29,828                    | 48                        | 0                             | 16,875                    | 122,230                  |
| 2005        | 0                                       | Not Available Before 2006 | Not Available Before 2006 | Not Available Before 2006 | Not Available Before 2006 | 2,191                     | 162,931                       | 14,840                    | 179,962                  |
| 2004        | 0                                       |                           |                           |                           |                           | 1,379                     | 108,825                       | 10,878                    | 121,082                  |
| 2003        | 0                                       |                           |                           |                           |                           | Not Available Before 2004 | Not Available Before 2004     | Not Available Before 2004 | 69,154                   |
| 2002        | 318                                     |                           |                           |                           |                           |                           |                               |                           | 59,376                   |
| 2001        | 0                                       |                           |                           |                           |                           |                           |                               |                           | 24,468                   |
| 2000        | 15                                      |                           |                           |                           |                           |                           |                               |                           | 10,304                   |
| 1999        | 3,293                                   |                           |                           |                           |                           |                           |                               |                           | 15,263                   |
| 1998        | 1,630                                   |                           |                           |                           |                           |                           |                               |                           | 15,711                   |
| 1997        | 36                                      |                           |                           |                           |                           |                           |                               |                           | 1,494                    |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.<sup>2</sup> Includes Alt-A and option ARM private-label mortgage-related securities purchased for other guarantee transactions. ARM stands for adjustable-rate mortgage.<sup>3</sup> Includes non-Freddie Mac mortgage-related securities purchased for other guarantee transactions, including Ginnie Mae mortgage-backed securities, as well as nonagency securities purchased and held for investment. Purchases in 2009 and 2010 include amounts related to housing finance agency bonds acquired and resecutitized under the new bond initiative program.

**Table 11. Freddie Mac MBS Issuances**

| Period             | Business Activity (\$ in Millions)     |                              |                                |                                     |
|--------------------|--|------------------------------|--------------------------------|-------------------------------------|
|                    | MBS Issuances <sup>1</sup>             |                              |                                |                                     |
|                    | Single-Family MBS <sup>2</sup><br>(\$) | Multifamily MBS<br>(\$)      | Total MBS <sup>2</sup><br>(\$) | Multiclass MBS <sup>3</sup><br>(\$) |
| <b>4Q10</b>        | 123,404                                | 1,440                        | 124,844                        | 59,257                              |
| <b>3Q10</b>        | 91,424                                 | 1,314                        | 92,738                         | 31,708                              |
| <b>2Q10</b>        | 76,352                                 | 2,407                        | 78,759                         | 19,664                              |
| <b>1Q10</b>        | 93,539                                 | 3,157                        | 96,696                         | 25,737                              |
| <b>Annual Data</b> |  |                              |                                |                                     |
| <b>2010</b>        | 384,719                                | 8,318                        | 393,037                        | 136,366                             |
| <b>2009</b>        | 472,461                                | 2,951                        | 475,412                        | 86,202                              |
| <b>2008</b>        | 352,776                                | 5,085                        | 357,861                        | 64,305                              |
| <b>2007</b>        | 467,342                                | 3,634                        | 470,976                        | 133,321                             |
| <b>2006</b>        | 358,184                                | 1,839                        | 360,023                        | 169,396                             |
| <b>2005</b>        | 396,213                                | 1,654                        | 397,867                        | 208,450                             |
| <b>2004</b>        | 360,933                                | 4,175                        | 365,108                        | 215,506                             |
| <b>2003</b>        | 705,450                                | 8,337                        | 713,787                        | 298,118                             |
| <b>2002</b>        | 543,716                                | 3,596                        | 547,312                        | 331,672                             |
| <b>2001</b>        | 387,234                                | 2,357                        | 389,591                        | 192,437                             |
| <b>2000</b>        | 165,115                                | 1,786                        | 166,901                        | 48,202                              |
| <b>1999</b>        | 230,986                                | 2,045                        | 233,031                        | 119,565                             |
| <b>1998</b>        | 249,627                                | 937                          | 250,564                        | 135,162                             |
| <b>1997</b>        | 113,758                                | 500                          | 114,258                        | 84,366                              |
| <b>1996</b>        | 118,932                                | 770                          | 119,702                        | 34,145                              |
| <b>1995</b>        | 85,522                                 | 355                          | 85,877                         | 15,372                              |
| <b>1994</b>        | 116,901                                | 209                          | 117,110                        | 73,131                              |
| <b>1993</b>        | 208,724                                | 0                            | 208,724                        | 143,336                             |
| <b>1992</b>        | 179,202                                | 5                            | 179,207                        | 131,284                             |
| <b>1991</b>        | 92,479                                 | 0                            | 92,479                         | 72,032                              |
| <b>1990</b>        | 71,998                                 | 1,817                        | 73,815                         | 40,479                              |
| <b>1989</b>        | 72,931                                 | 587                          | 73,518                         | 39,754                              |
| <b>1988</b>        | 39,490                                 | 287                          | 39,777                         | 12,985                              |
| <b>1987</b>        | 72,866                                 | 2,152                        | 75,018                         | 0                                   |
| <b>1986</b>        | 96,798                                 | 3,400                        | 100,198                        | 2,233                               |
| <b>1985</b>        | 37,583                                 | 1,245                        | 38,828                         | 2,625                               |
| <b>1984</b>        | Not Available<br>Before 1985           | Not Available<br>Before 1985 | 18,684                         | 1,805                               |
| <b>1983</b>        |  |                              | 19,691                         | 1,685                               |
| <b>1982</b>        |  |                              | 24,169                         | Not Issued<br>Before 1983           |
| <b>1981</b>        |  |                              | 3,526                          |                                     |
| <b>1980</b>        |  |                              | 2,526                          |                                     |
| <b>1979</b>        |  |                              | 4,546                          |                                     |
| <b>1978</b>        |  |                              | 6,412                          |                                     |
| <b>1977</b>        |  |                              | 4,657                          |                                     |
| <b>1976</b>        |  |                              | 1,360                          |                                     |
| <b>1975</b>        |  |                              | 950                            |                                     |
| <b>1974</b>        |  |                              | 46                             |                                     |
| <b>1973</b>        |  |                              | 323                            |                                     |
| <b>1972</b>        |  |                              | 494                            |                                     |
| <b>1971</b>        |  |                              | 65                             |                                     |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled. Includes issuance of other guarantee commitments for mortgages not in the form of a security.

<sup>2</sup> Includes mortgage-backed securities (MBS), real estate mortgage investment conduits (REMICs), other structured securities, and other guarantee transactions. From 2002 through 2010, includes Freddie Mac REMICs and other structured securities backed by Ginnie Mae MBS. Before 2002, excludes Freddie Mac REMICs and other structured securities backed by Ginnie Mae MBS.

<sup>3</sup> Includes activity related to multiclass securities, primarily REMICs, but excludes resecuritizations of MBS into single-class securities. Amounts are not included in total MBS issuances if the activity represents a resecuritization of a Freddie Mac MBS.

Table 12. Freddie Mac Earnings

| Period             | Earnings (\$ in Millions)                |   |                                 |  |                           |                                      |
|--------------------|--|---|---------------------------------|--|---------------------------|--------------------------------------|
|                    | Net Interest Income <sup>1</sup><br>(\$) | Guarantee Fee Income <sup>1</sup><br>(\$) | Administrative Expenses<br>(\$) | Credit-Related Expenses <sup>2</sup><br>(\$) | Net Income (Loss)<br>(\$) | Return on Equity <sup>3</sup><br>(%) |
| <b>4Q10</b>        | 4,316                                    | 36  | 388                             | 3,283  | (113)                     | N/M                                  |
| <b>3Q10</b>        | 4,279                                    | 35  | 376                             | 4,064  | (2,511)                   | N/M                                  |
| <b>2Q10</b>        | 4,136                                    | 37  | 387                             | 4,989  | (4,713)                   | N/M                                  |
| <b>1Q10</b>        | 4,125                                    | 35  | 395                             | 5,555  | (6,688)                   | N/M                                  |
| <b>Annual Data</b> |  |   |                                 |  |                           |                                      |
| <b>2010</b>        | 16,856                                   | 143                                       | 1,546                           | 17,891                                       | (14,025)                  | N/M                                  |
| <b>2009</b>        | 17,073                                   | 3,033                                     | 1,651                           | 29,837                                       | (21,553)                  | N/M                                  |
| <b>2008</b>        | 6,796                                    | 3,370                                     | 1,505                           | 17,529                                       | (50,119)                  | N/M                                  |
| <b>2007</b>        | 3,099                                    | 2,635                                     | 1,674                           | 3,060  | (3,094)                   | (21.0)                               |
| <b>2006</b>        | 3,412                                    | 2,393                                     | 1,641                           | 356  | 2,327                     | 9.8                                  |
| <b>2005</b>        | 4,627                                    | 2,076                                     | 1,535                           | 347  | 2,113                     | 8.1                                  |
| <b>2004</b>        | 9,137                                    | 1,382                                     | 1,550                           | 140  | 2,937                     | 9.4                                  |
| <b>2003</b>        | 9,498                                    | 1,653                                     | 1,181                           | 2  | 4,816                     | 17.7                                 |
| <b>2002</b>        | 9,525                                    | 1,527                                     | 1,406                           | 126  | 10,090                    | 47.2                                 |
| <b>2001</b>        | 7,448                                    | 1,381                                     | 1,024                           | 39   | 3,158                     | 20.2                                 |
| <b>2000</b>        | 3,758                                    | 1,243                                     | 825                             | 75   | 3,666                     | 39.0                                 |
| <b>1999</b>        | 2,926                                    | 1,019                                     | 655                             | 159  | 2,223                     | 25.5                                 |
| <b>1998</b>        | 2,215                                    | 1,019                                     | 578                             | 342  | 1,700                     | 22.6                                 |
| <b>1997</b>        | 1,847                                    | 1,082                                     | 495                             | 529  | 1,395                     | 23.1                                 |
| <b>1996</b>        | 1,705                                    | 1,086                                     | 440                             | 608  | 1,243                     | 22.6                                 |
| <b>1995</b>        | 1,396                                    | 1,087                                     | 395                             | 541  | 1,091                     | 22.1                                 |
| <b>1994</b>        | 1,112                                    | 1,108                                     | 379                             | 425  | 983                       | 23.3                                 |
| <b>1993</b>        | 772                                      | 1,009                                     | 361                             | 524  | 786                       | 22.3                                 |
| <b>1992</b>        | 695                                      | 936                                       | 329                             | 457  | 622                       | 21.2                                 |
| <b>1991</b>        | 683                                      | 792                                       | 287                             | 419  | 555                       | 23.6                                 |
| <b>1990</b>        | 619                                      | 654                                       | 243                             | 474  | 414                       | 20.4                                 |
| <b>1989</b>        | 517                                      | 572                                       | 217                             | 278  | 437                       | 25.0                                 |
| <b>1988</b>        | 492                                      | 465                                       | 194                             | 219  | 381                       | 27.5                                 |
| <b>1987</b>        | 319                                      | 472                                       | 150                             | 175  | 301                       | 28.2                                 |
| <b>1986</b>        | 299                                      | 301                                       | 110                             | 120  | 247                       | 28.5                                 |
| <b>1985</b>        | 312                                      | 188                                       | 81                              | 79   | 208                       | 30.0                                 |
| <b>1984</b>        | 213                                      | 158                                       | 71                              | 54   | 144                       | 52.0                                 |
| <b>1983</b>        | 125                                      | 132                                       | 53                              | 46   | 86                        | 44.5                                 |
| <b>1982</b>        | 30                                       | 77  | 37                              | 26   | 60                        | 21.9                                 |
| <b>1981</b>        | 34                                       | 36  | 30                              | 16   | 31                        | 13.1                                 |
| <b>1980</b>        | 54                                       | 23  | 26                              | 23   | 34                        | 14.7                                 |
| <b>1979</b>        | 55                                       | 18  | 19                              | 20   | 36                        | 16.2                                 |
| <b>1978</b>        | 37                                       | 14  | 14                              | 13   | 25                        | 13.4                                 |
| <b>1977</b>        | 31                                       | 9   | 12                              | 8  | 21                        | 12.4                                 |
| <b>1976</b>        | 18                                       | 3   | 10                              | (1)  | 14                        | 9.5                                  |
| <b>1975</b>        | 31                                       | 3   | 10                              | 11   | 16                        | 11.6                                 |
| <b>1974</b>        | 42                                       | 2   | 8                               | 33   | 5                         | 4.0                                  |
| <b>1973</b>        | 31                                       | 2   | 7                               | 15   | 12                        | 9.9                                  |
| <b>1972</b>        | 10                                       | 1   | 5                               | 4  | 4                         | 3.5                                  |
| <b>1971</b>        | 10                                       | 1   | Not Available<br>Before 1972    | Not Available<br>Before 1972                 | 6                         | 5.5                                  |

Source : Freddie Mac

N/M = not meaningful

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years. Effective January 1, 2010, guarantee fee income associated with securitization activities of consolidated trusts is reflected in net interest income.

<sup>2</sup> From 2002 through 2010, defined as provision for credit losses and real estate owned operations income/expense. For 2000 and 2001, includes only provision for credit losses.

<sup>3</sup> Ratio computed as annualized net income (loss) available to common stockholders divided by the simple average of beginning and ending common stockholders' equity (deficit).

**Table 13. Freddie Mac Balance Sheet**

| End of Period      | Balance Sheet (\$ in Millions) <sup>1</sup> |   |                              |                       |                           |                                |                             |                               |
|--------------------|---|---|------------------------------|-----------------------|---------------------------|--------------------------------|-----------------------------|-------------------------------|
|                    | Total Assets (\$)                           | Total Mortgage Assets <sup>2</sup> (\$) | Nonmortgage Investments (\$) | Debt Outstanding (\$) | Stockholders' Equity (\$) | Core Capital <sup>3</sup> (\$) | Senior Preferred Stock (\$) | Fair-Value of Net Assets (\$) |
| <b>4Q10</b>        | 2,261,780                                   | 2,149,586                               | 74,420                       | 2,242,588             | (401)                     | (52,570)                       | 64,200                      | (58,600)                      |
| <b>3Q10</b>        | 2,288,730                                   | 2,181,774                               | 75,939                       | 2,269,894             | (58)                      | (50,858)                       | 64,100                      | (56,500)                      |
| <b>2Q10</b>        | 2,343,576                                   | 2,220,915                               | 71,790                       | 2,326,345             | (1,738)                   | (46,791)                       | 62,300                      | (46,300)                      |
| <b>1Q10</b>        | 2,360,210                                   | 2,240,445                               | 58,567                       | 2,351,848             | (10,614)                  | (40,784)                       | 51,700                      | (59,600)                      |
| <b>Annual Data</b> |   |   |                              |                       |                           |                                |                             |                               |
| <b>2010</b>        | 2,261,780                                   | 2,149,586                               | 74,420                       | 2,242,588             | (401)                     | (52,570)                       | 64,200                      | (58,600)                      |
| <b>2009</b>        | 841,784                                     | 716,974                                 | 26,271                       | 780,604               | 4,278                     | (23,774)                       | 51,700                      | (62,500)                      |
| <b>2008</b>        | 850,963                                     | 748,747                                 | 18,944                       | 843,021               | (30,731)                  | (13,174)                       | 14,800                      | (95,600)                      |
| <b>2007</b>        | 794,368                                     | 710,042                                 | 41,663                       | 738,557               | 26,724                    | 37,867                         | Not Applicable Before 2008  | 12,600                        |
| <b>2006</b>        | 804,910                                     | 700,002                                 | 68,614                       | 744,341               | 26,914                    | 35,365                         |                             | 31,800                        |
| <b>2005</b>        | 798,609                                     | 709,503                                 | 57,324                       | 740,024               | 25,691                    | 35,043                         |                             | 30,900                        |
| <b>2004</b>        | 795,284                                     | 664,582                                 | 62,027                       | 731,697               | 31,416                    | 34,106                         |                             | 30,900                        |
| <b>2003</b>        | 803,449                                     | 660,531                                 | 53,124                       | 739,613               | 31,487                    | 32,416                         |                             | 27,300                        |
| <b>2002</b>        | 752,249                                     | 589,899                                 | 91,871                       | 665,696               | 31,330                    | 28,990                         |                             | 22,900                        |
| <b>2001</b>        | 641,100                                     | 503,769                                 | 89,849                       | 578,368               | 19,624                    | 20,181                         |                             | 18,300                        |
| <b>2000</b>        | 459,297                                     | 385,451                                 | 43,521                       | 426,899               | 14,837                    | 14,380                         |                             | Not Available Before 2001     |
| <b>1999</b>        | 386,684                                     | 322,914                                 | 34,152                       | 360,711               | 11,525                    | 12,692                         |                             |                               |
| <b>1998</b>        | 321,421                                     | 255,670                                 | 42,160                       | 287,396               | 10,835                    | 10,715                         |                             |                               |
| <b>1997</b>        | 194,597                                     | 164,543                                 | 16,430                       | 172,842               | 7,521                     | 7,376                          |                             |                               |
| <b>1996</b>        | 173,866                                     | 137,826                                 | 22,248                       | 156,981               | 6,731                     | 6,743                          |                             |                               |
| <b>1995</b>        | 137,181                                     | 107,706                                 | 12,711                       | 119,961               | 5,863                     | 5,829                          |                             |                               |
| <b>1994</b>        | 106,199                                     | 73,171                                  | 17,808                       | 93,279                | 5,162                     | 5,169                          |                             |                               |
| <b>1993</b>        | 83,880                                      | 55,938                                  | 18,225                       | 49,993                | 4,437                     | 4,437                          |                             |                               |
| <b>1992</b>        | 59,502                                      | 33,629                                  | 12,542                       | 29,631                | 3,570                     | Not Applicable Before 1993     |                             |                               |
| <b>1991</b>        | 46,860                                      | 26,667                                  | 9,956                        | 30,262                | 2,566                     |                                |                             |                               |
| <b>1990</b>        | 40,579                                      | 21,520                                  | 12,124                       | 30,941                | 2,136                     |                                |                             |                               |
| <b>1989</b>        | 35,462                                      | 21,448                                  | 11,050                       | 26,147                | 1,916                     |                                |                             |                               |
| <b>1988</b>        | 34,352                                      | 16,918                                  | 14,607                       | 26,882                | 1,584                     |                                |                             |                               |
| <b>1987</b>        | 25,674                                      | 12,354                                  | 10,467                       | 19,547                | 1,182                     |                                |                             |                               |
| <b>1986</b>        | 23,229                                      | 13,093                                  | Not Available Before 1987    | 15,375                | 953                       |                                |                             |                               |
| <b>1985</b>        | 16,587                                      | 13,547                                  |                              | 12,747                | 779                       |                                |                             |                               |
| <b>1984</b>        | 13,778                                      | 10,018                                  |                              | 10,999                | 606                       |                                |                             |                               |
| <b>1983</b>        | 8,995                                       | 7,485                                   |                              | 7,273                 | 421                       |                                |                             |                               |
| <b>1982</b>        | 5,999                                       | 4,679                                   |                              | 4,991                 | 296                       |                                |                             |                               |
| <b>1981</b>        | 6,326                                       | 5,178                                   |                              | 5,680                 | 250                       |                                |                             |                               |
| <b>1980</b>        | 5,478                                       | 5,006                                   |                              | 4,886                 | 221                       |                                |                             |                               |
| <b>1979</b>        | 4,648                                       | 4,003                                   |                              | 4,131                 | 238                       |                                |                             |                               |
| <b>1978</b>        | 3,697                                       | 3,038                                   |                              | 3,216                 | 202                       |                                |                             |                               |
| <b>1977</b>        | 3,501                                       | 3,204                                   |                              | 3,110                 | 177                       |                                |                             |                               |
| <b>1976</b>        | 4,832                                       | 4,175                                   |                              | 4,523                 | 156                       |                                |                             |                               |
| <b>1975</b>        | 5,899                                       | 4,878                                   |                              | 5,609                 | 142                       |                                |                             |                               |
| <b>1974</b>        | 4,901                                       | 4,469                                   |                              | 4,684                 | 126                       |                                |                             |                               |
| <b>1973</b>        | 2,873                                       | 2,521                                   |                              | 2,696                 | 121                       |                                |                             |                               |
| <b>1972</b>        | 1,772                                       | 1,726                                   |                              | 1,639                 | 110                       |                                |                             |                               |
| <b>1971</b>        | 1,038                                       | 935                                     |                              | 915                   | 107                       |                                |                             |                               |

Source : Freddie Mac

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>2</sup> Excludes allowance for loan losses.

<sup>3</sup> The sum of (a) the stated value of outstanding common stock (common stock less treasury stock); (b) the stated value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss) and senior preferred stock.



Table 13a. Freddie Mac Total MBS Outstanding Detail<sup>1</sup>

| End of Period      | Single-Family Mortgages (\$ in Millions) |                                   |                           |                           |                           | Multifamily Mortgages (\$ in Millions) |                           |                            | (\$ in Millions)                        |  |
|--------------------|--|-----------------------------------|---------------------------|---------------------------|---------------------------|--|---------------------------|----------------------------|---|--|
|                    | Conventional                             |                                   |                           |                           | Total FHA/VA <sup>4</sup> | Conventional (\$)                      | FHA/RD (\$)               | Multifamily Mortgages (\$) | Total MBS Outstanding <sup>5</sup> (\$) | Multiclass MBS Outstanding <sup>6</sup> (\$) |
|                    | Fixed-Rate <sup>2</sup> (\$)             | Adjustable-Rate <sup>3</sup> (\$) | Seconds <sup>4</sup> (\$) | Total (\$)                |                           |  |                           |                            |   |  |
| <b>4Q10</b>        | 1,357,124                                | 84,471                            | 2                         | 1,441,597                 | 4,434                     | 21,954                                 | 0                         | 21,954                     | 1,467,985                               | 429,115                                      |
| <b>3Q10</b>        | 1,369,633                                | 86,964                            | 2                         | 1,456,599                 | 4,249                     | 20,983                                 | 0                         | 20,983                     | 1,481,831                               | 418,382                                      |
| <b>2Q10</b>        | 1,367,318                                | 90,789                            | 2                         | 1,458,109                 | 4,351                     | 19,905                                 | 0                         | 19,905                     | 1,482,365                               | 419,068                                      |
| <b>1Q10</b>        | 1,355,243                                | 94,608                            | 2                         | 1,449,853                 | 4,482                     | 17,998                                 | 0                         | 17,998                     | 1,472,333                               | 427,857                                      |
| <b>Annual Data</b> |  |                                   |                           |                           |                           |  |                           |                            |   |  |
| <b>2010</b>        | 1,357,124                                | 84,471                            | 2                         | 1,441,597                 | 4,434                     | 21,954                                 | 0                         | 21,954                     | 1,467,985                               | 429,115                                      |
| <b>2009</b>        | 1,364,796                                | 111,550                           | 3                         | 1,476,349                 | 3,544                     | 15,374                                 | 0                         | 15,374                     | 1,495,267                               | 448,329                                      |
| <b>2008</b>        | 1,242,648                                | 142,495                           | 4                         | 1,385,147                 | 3,970                     | 13,597                                 | 0                         | 13,597                     | 1,402,714                               | 517,654                                      |
| <b>2007</b>        | 1,206,495                                | 161,963                           | 7                         | 1,368,465                 | 4,499                     | 8,899                                  | 0                         | 8,899                      | 1,381,863                               | 526,604                                      |
| <b>2006</b>        | 967,580                                  | 141,740                           | 12                        | 1,109,332                 | 5,396                     | 8,033                                  | 0                         | 8,033                      | 1,122,761                               | 491,696                                      |
| <b>2005</b>        | 836,023                                  | 117,757                           | 19                        | 953,799                   | 6,289                     | 14,112                                 | 0                         | 14,112                     | 974,200                                 | 437,668                                      |
| <b>2004</b>        | 736,332                                  | 91,474                            | 70                        | 827,876                   | 9,254                     | 15,140                                 | 0                         | 15,140                     | 852,270                                 | 390,516                                      |
| <b>2003</b>        | 649,699                                  | 74,409                            | 140                       | 724,248                   | 12,157                    | 15,759                                 | 0                         | 15,759                     | 752,164                                 | 347,833                                      |
| <b>2002</b>        | 647,603                                  | 61,110                            | 5                         | 708,718                   | 12,361                    | 8,730                                  | 0                         | 8,730                      | 729,809                                 | 392,545                                      |
| <b>2001</b>        | 609,290                                  | 22,525                            | 10                        | 631,825                   | 14,127                    | 7,132                                  | 0                         | 7,132                      | 653,084                                 | 299,652                                      |
| <b>2000</b>        | 533,331                                  | 36,266                            | 18                        | 569,615                   | 778                       | 5,708                                  | 0                         | 5,708                      | 576,101                                 | 309,185                                      |
| <b>1999</b>        | 499,671                                  | 33,094                            | 29                        | 532,794                   | 627                       | 4,462                                  | 0                         | 4,462                      | 537,883                                 | 316,168                                      |
| <b>1998</b>        | Not Available Before 1999                | Not Available Before 1999         | Not Available Before 1999 | Not Available Before 1999 | Not Available Before 1999 | Not Available Before 1999              | Not Available Before 1999 | Not Available Before 1999  | 478,351                                 | 260,504                                      |
| <b>1997</b>        |  |                                   |                           |                           |                           |  |                           |                            | 475,985                                 | 233,829                                      |
| <b>1996</b>        |  |                                   |                           |                           |                           |  |                           |                            | 473,065                                 | 237,939                                      |
| <b>1995</b>        |  |                                   |                           |                           |                           |  |                           |                            | 459,045                                 | 246,336                                      |
| <b>1994</b>        |  |                                   |                           |                           |                           |  |                           |                            | 460,656                                 | 264,152                                      |
| <b>1993</b>        |  |                                   |                           |                           |                           |  |                           |                            | 439,029                                 | 265,178                                      |
| <b>1992</b>        |  |                                   |                           |                           |                           |  |                           |                            | 407,514                                 | 218,747                                      |
| <b>1991</b>        |  |                                   |                           |                           |                           |  |                           |                            | 359,163                                 | 146,978                                      |
| <b>1990</b>        |  |                                   |                           |                           |                           |  |                           |                            | 316,359                                 | 88,124                                       |
| <b>1989</b>        |  |                                   |                           |                           |                           |  |                           |                            | 272,870                                 | 52,865                                       |
| <b>1988</b>        |  |                                   |                           |                           |                           |  |                           |                            | 226,406                                 | 15,621                                       |
| <b>1987</b>        |  |                                   |                           |                           |                           |  |                           |                            | 212,635                                 | 3,652  |
| <b>1986</b>        |  |                                   |                           |                           |                           |  |                           |                            | 169,186                                 | 5,333  |
| <b>1985</b>        |  |                                   |                           |                           |                           |  |                           |                            | 99,909                                  | 5,047  |
| <b>1984</b>        |  |                                   |                           |                           |                           |  |                           |                            | 70,026                                  | 3,214  |
| <b>1983</b>        |  |                                   |                           |                           |                           |  |                           |                            | 57,720                                  | 1,669  |
| <b>1982</b>        |  |                                   |                           |                           |                           |  |                           |                            | 42,952                                  | Not Issued Before 1983                       |
| <b>1981</b>        |  |                                   |                           |                           |                           |  |                           |                            | 19,897                                  |  |
| <b>1980</b>        |  |                                   |                           |                           |                           |  |                           |                            | 16,962                                  |  |
| <b>1979</b>        |  |                                   |                           |                           |                           |  |                           |                            | 15,316                                  |  |
| <b>1978</b>        |  |                                   |                           |                           |                           |  |                           |                            | 12,017                                  |  |
| <b>1977</b>        |  |                                   |                           |                           |                           |  |                           |                            | 6,765                                   |  |
| <b>1976</b>        |  |                                   |                           |                           |                           |  |                           |                            | 2,765                                   |  |
| <b>1975</b>        |  |                                   |                           |                           |                           |  |                           |                            | 1,643                                   |  |
| <b>1974</b>        |  |                                   |                           |                           |                           |  |                           |                            | 780                                     |  |
| <b>1973</b>        |  |                                   |                           |                           |                           |  |                           |                            | 791                                     |  |
| <b>1972</b>        |  |                                   |                           |                           |                           |  |                           |                            | 444                                     |  |
| <b>1971</b>        |  |                                   |                           |                           |                           |  |                           |                            | 64                                      |  |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances of mortgage guarantees held by third parties. Excludes mortgage-backed securities (MBS) held for investment by Freddie Mac.<sup>2</sup> Includes USDA Rural Development (RD) loans.<sup>3</sup> From 2001 to 2010, includes MBS with underlying mortgages classified as balloons/reset loans.<sup>4</sup> From 2002 to 2010, includes securitizations of non-Freddie Mac securities.<sup>5</sup> Excludes mortgage loans and mortgage-related securities traded but not yet settled. From 2002 to 2010, amounts include real estate mortgage investment conduits and other structured securities, other guarantee transactions, and other guarantee commitments of mortgage loans and MBS held by third parties.<sup>6</sup> Amounts are included in total MBS outstanding column.

**Table 14. Freddie Mac Mortgage Assets Detail<sup>1</sup>**

| End of Period      | (\$ in Millions)             |  |  |   |  |
|--------------------|------------------------------|--|--|---|--|
|                    | Loans <sup>2</sup><br>(\$)   | Freddie Mac<br>Securities <sup>2</sup><br>(\$) | Other<br>Mortgage-Related<br>Securities <sup>2</sup><br>(\$) | Unamortized<br>Premiums, Discounts,<br>Deferred Fees, Plus<br>Unrealized<br>Gains/Losses on<br>Available-for-Sale<br>Securities <sup>3</sup> (\$) | Total<br>Mortgage<br>Assets <sup>4</sup><br>(\$) |
| <b>4Q10</b>        | 1,885,139                    | 90,168   | 198,525  | (24,246)  | 2,149,586  |
| <b>3Q10</b>        | 1,911,897                    | 89,863   | 205,630  | (25,616)  | 2,181,774  |
| <b>2Q10</b>        | 1,944,224                    | 92,958   | 217,942  | (34,209)  | 2,220,915  |
| <b>1Q10</b>        | 1,953,048                    | 96,942   | 233,026  | (42,571)  | 2,240,445  |
| <b>Annual Data</b> |                              |  |  |   |  |
| <b>2010</b>        | 1,885,139                    | 90,168   | 198,525  | (24,246)  | 2,149,586  |
| <b>2009</b>        | 138,816                      | 374,615  | 241,841  | (38,298)  | 716,974  |
| <b>2008</b>        | 111,476                      | 424,524  | 268,762  | (56,015)  | 748,747  |
| <b>2007</b>        | 82,158                       | 356,970  | 281,685  | (10,771)  | 710,042  |
| <b>2006</b>        | 65,847                       | 354,262  | 283,850  | (3,957)   | 700,002  |
| <b>2005</b>        | 61,481                       | 361,324  | 287,541  | (843)   | 709,503  |
| <b>2004</b>        | 61,360                       | 356,698  | 235,203  | 11,321  | 664,582  |
| <b>2003</b>        | 60,270                       | 393,135  | 192,362  | 14,764  | 660,531  |
| <b>2002</b>        | 63,886                       | 341,287  | 162,099  | 22,627  | 589,899  |
| <b>2001</b>        | 62,792                       | 308,427  | 126,420  | 6,130   | 503,769  |
| <b>2000</b>        | 59,240                       | 246,209  | 80,244   | (242)   | 385,451  |
| <b>1999</b>        | 56,676                       | 211,198  | 56,569   | (1,529)   | 322,914  |
| <b>1998</b>        | 57,084                       | 168,108  | 29,817   | 661   | 255,670  |
| <b>1997</b>        | 48,454                       | 103,400  | Not Available<br>Before 1998                                 | 122   | 164,543  |
| <b>1996</b>        | 46,504                       | 81,195   |  | 71  | 137,826  |
| <b>1995</b>        | 43,753                       | 56,006   |  | 282   | 107,706  |
| <b>1994</b>        | Not Available<br>Before 1995 | 30,670   |  | Not Available<br>Before 1995  | 73,171   |
| <b>1993</b>        |                              | 15,877   |  |   | 55,938   |
| <b>1992</b>        |                              | 6,394  |  |   | 33,629   |
| <b>1991</b>        |                              | Not Available<br>Before 1992                   |  |   | 26,667   |
| <b>1990</b>        |                              |  |  |   | 21,520   |
| <b>1989</b>        |                              |  |  |   | 21,448   |
| <b>1988</b>        |                              |  |  |   | 16,918   |
| <b>1987</b>        |                              |  |  |   | 12,354   |
| <b>1986</b>        |                              |  |  |   | 13,093   |
| <b>1985</b>        |                              |  |  |   | 13,547   |
| <b>1984</b>        |                              |  |  |   | 10,018   |
| <b>1983</b>        |                              |  |  |   | 7,485  |
| <b>1982</b>        |                              |  |  |   | 4,679  |
| <b>1981</b>        |                              |  |  |   | 5,178  |
| <b>1980</b>        |                              |  |  |   | 5,006  |
| <b>1979</b>        |                              |  |  |   | 4,003  |
| <b>1978</b>        |                              |  |  |   | 3,038  |
| <b>1977</b>        |                              |  |  |   | 3,204  |
| <b>1976</b>        |                              |  |  |   | 4,175  |
| <b>1975</b>        |                              |  |  |   | 4,878  |
| <b>1974</b>        |                              |  |  |   | 4,469  |
| <b>1973</b>        |                              |  |  |   | 2,521  |
| <b>1972</b>        |                              |  |  |   | 1,726  |
| <b>1971</b>        |                              |  |  |   | 935  |

Source : Freddie Mac

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these line items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>2</sup> Based on unpaid principal balances and excludes mortgage loans and mortgage-related securities traded but not yet settled.

<sup>3</sup> Includes premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments on mortgage loans and mortgage-related securities plus unrealized gains or losses on available-for-sale mortgage-related securities. Amounts before 2006 include mortgage-backed securities, residuals at fair value.

<sup>4</sup> Excludes allowance for loan losses.

Table 14a. Freddie Mac Mortgage Assets Detail – Loans

| End of Period | Loans (\$ in Millions) <sup>1,2</sup> |                           |                           |                           |                           |                   |                           |            |                  |
|---------------|---------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------|---------------------------|------------|------------------|
|               | Single-Family                         |                           |                           |                           |                           | Multifamily       |                           |            | Total Loans (\$) |
|               | Conventional                          |                           |                           |                           | Total FHA/VA (\$)         | Conventional (\$) | FHA/RD (\$)               | Total (\$) |                  |
|               | Fixed-Rate <sup>3</sup> (\$)          | Adjustable-Rate (\$)      | Seconds (\$)              | Total (\$)                |                           |                   |                           |            |                  |
| 4Q10          | 1,653,089                             | 143,212                   | 0                         | 1,796,301                 | 2,955                     | 85,880            | 3                         | 85,883     | 1,885,139        |
| 3Q10          | 1,675,652                             | 150,361                   | 0                         | 1,826,013                 | 2,993                     | 82,888            | 3                         | 82,891     | 1,911,897        |
| 2Q10          | 1,701,125                             | 157,964                   | 0                         | 1,859,089                 | 2,950                     | 82,182            | 3                         | 82,185     | 1,944,224        |
| 1Q10          | 1,700,563                             | 166,633                   | 0                         | 1,867,196                 | 2,844                     | 83,005            | 3                         | 83,008     | 1,953,048        |
| Annual Data   |                                       |                           |                           |                           |                           |                   |                           |            |                  |
| 2010          | 1,653,089                             | 143,212                   | 0                         | 1,796,301                 | 2,955                     | 85,880            | 3                         | 85,883     | 1,885,139        |
| 2009          | 50,980                                | 2,310                     | 0                         | 53,290                    | 1,588                     | 83,935            | 3                         | 83,938     | 138,816          |
| 2008          | 36,071                                | 2,136                     | 0                         | 38,207                    | 548                       | 72,718            | 3                         | 72,721     | 111,476          |
| 2007          | 21,578                                | 2,700                     | 0                         | 24,278                    | 311                       | 57,566            | 3                         | 57,569     | 82,158           |
| 2006          | 19,211                                | 1,233                     | 0                         | 20,444                    | 196                       | 45,204            | 3                         | 45,207     | 65,847           |
| 2005          | 19,238                                | 903                       | 0                         | 20,141                    | 255                       | 41,082            | 3                         | 41,085     | 61,481           |
| 2004          | 22,055                                | 990                       | 0                         | 23,045                    | 344                       | 37,968            | 3                         | 37,971     | 61,360           |
| 2003          | 25,889                                | 871                       | 1                         | 26,761                    | 513                       | 32,993            | 3                         | 32,996     | 60,270           |
| 2002          | 33,821                                | 1,321                     | 3                         | 35,145                    | 705                       | 28,033            | 3                         | 28,036     | 63,886           |
| 2001          | 38,267                                | 1,073                     | 5                         | 39,345                    | 964                       | 22,480            | 3                         | 22,483     | 62,792           |
| 2000          | 39,537                                | 2,125                     | 9                         | 41,671                    | 1,200                     | 16,369            | Not Available Before 2001 | 16,369     | 59,240           |
| 1999          | 43,210                                | 1,020                     | 14                        | 44,244                    | 77                        | 12,355            |                           | 12,355     | 56,676           |
| 1998          | 47,754                                | 1,220                     | 23                        | 48,997                    | 109                       | 7,978             |                           | 7,978      | 57,084           |
| 1997          | 40,967                                | 1,478                     | 36                        | 42,481                    | 148                       | 5,825             |                           | 5,825      | 48,454           |
| 1996          | Not Available Before 1997             | Not Available Before 1997 | Not Available Before 1997 | Not Available Before 1997 | Not Available Before 1997 | 4,746             |                           | 4,746      | 46,504           |
| 1995          |                                       |                           |                           |                           |                           | 3,852             |                           | 3,852      | 43,753           |

Source : Freddie Mac

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>2</sup> Based on unpaid principal balances of mortgage loans and excludes mortgage loans traded but not yet settled.

<sup>3</sup> From 2001 to 2010, includes USDA Rural Development (RD) guaranteed loans.

**Table 14b. Freddie Mac Mortgage Assets Detail – Part 1, Mortgage-Related Securities**

| End of Period | Mortgage-Related Securities (\$ in Millions) <sup>1</sup> |                           |                           |                        |                           |                           |                           |                           |                           |                           |                           |                           |                           |                               |
|---------------|---|---------------------------|---------------------------|------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|-------------------------------|
|               | Freddie Mac Securities <sup>2,3</sup> (\$)                |                           |                           |                        | Others' Securities        |                           |                           |                           |                           |                           |                           |                           |                           |                               |
|               | Single-Family   |                           | Multi-family (\$)         | Total Freddie Mac (\$) | Fannie Mae                |                           |                           |                           | Ginnie Mae                |                           |                           |                           | Total Private-Label (\$)  | Total Others' Securities (\$) |
|               | Fixed-Rate (\$)   | Adjustable-Rate (\$)      |                           |                        | Single-Family             |                           | Multi-family (\$)         | Total Fannie Mae (\$)     | Single-Family             |                           | Multi-family (\$)         | Total Ginnie Mae (\$)     |                           |                               |
|               |   |                           |                           |                        | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                           |                           |                               |
| 4Q10          | 79,955  | 8,118                     | 2,095                     | 90,168                 | 21,238                    | 18,139                    | 316                       | 39,693                    | 296                       | 117                       | 27                        | 440                       | 148,515                   | 188,648                       |
| 3Q10          | 79,649  | 8,074                     | 2,140                     | 89,863                 | 22,887                    | 19,482                    | 438                       | 42,807                    | 307                       | 121                       | 30                        | 458                       | 152,015                   | 195,280                       |
| 2Q10          | 81,980  | 8,476                     | 2,502                     | 92,958                 | 28,481                    | 21,904                    | 486                       | 50,871                    | 318                       | 125                       | 29                        | 472                       | 155,697                   | 207,040                       |
| 1Q10          | 85,535  | 9,078                     | 2,329                     | 96,942                 | 34,148                    | 26,482                    | 520                       | 61,150                    | 329                       | 129                       | 35                        | 493                       | 160,007                   | 221,650                       |
| Annual Data   |   |                           |                           |                        |                           |                           |                           |                           |                           |                           |                           |                           |                           |                               |
| 2010          | 79,955  | 8,118                     | 2,095                     | 90,168                 | 21,238                    | 18,139                    | 316                       | 39,693                    | 296                       | 117                       | 27                        | 440                       | 148,515                   | 188,648                       |
| 2009          | 294,958   | 77,708                    | 1,949                     | 374,615                | 36,549                    | 28,585                    | 528                       | 65,662                    | 341                       | 133                       | 35                        | 509                       | 163,816                   | 229,987                       |
| 2008          | 328,965   | 93,498                    | 2,061                     | 424,524                | 35,142                    | 34,460                    | 674                       | 70,276                    | 398                       | 152                       | 26                        | 576                       | 185,041                   | 255,893                       |
| 2007          | 269,896   | 84,415                    | 2,659                     | 356,970                | 23,140                    | 23,043                    | 922                       | 47,105                    | 468                       | 181                       | 82                        | 731                       | 218,914                   | 266,750                       |
| 2006          | 282,052   | 71,828                    | 382                       | 354,262                | 25,779                    | 17,441                    | 1,214                     | 44,434                    | 707                       | 231                       | 13                        | 951                       | 224,631                   | 270,016                       |
| 2005          | 299,167   | 61,766                    | 391                       | 361,324                | 28,818                    | 13,180                    | 1,335                     | 43,333                    | 1,045                     | 218                       | 30                        | 1,293                     | 231,594                   | 276,220                       |
| 2004          | 304,555   | 51,737                    | 406                       | 356,698                | 41,828                    | 14,504                    | 1,672                     | 58,004                    | 1,599                     | 81                        | 31                        | 1,711                     | 166,411                   | 226,126                       |
| 2003          | Not Available Before 2004                                 | Not Available Before 2004 | Not Available Before 2004 | 393,135                | Not Available Before 2004 | Not Available Before 2004 | Not Available Before 2004 | 74,529                    | Not Available Before 2004 | Not Available Before 2004 | Not Available Before 2004 | 2,760                     | 107,301                   | 184,590                       |
| 2002          |   |                           |                           | 341,287                |                           |                           |                           | 78,829                    |                           |                           |                           | 4,878                     | 70,752                    | 154,459                       |
| 2001          |   |                           |                           | 308,427                |                           |                           |                           | 71,128                    |                           |                           |                           | 5,699                     | 42,336                    | 119,163                       |
| 2000          |   |                           |                           | 246,209                |                           |                           |                           | 28,303                    |                           |                           |                           | 8,991                     | 35,997                    | 73,291                        |
| 1999          |   |                           |                           | 211,198                |                           |                           |                           | 13,245                    |                           |                           |                           | 6,615                     | 31,019                    | 50,879                        |
| 1998          |   |                           |                           | 168,108                |                           |                           |                           | 3,749                     |                           |                           |                           | 4,458                     | 16,970                    | 25,177                        |
| 1997          |   |                           |                           | 103,400                |                           |                           |                           | Not Available Before 1998 |                           |                           |                           | 6,393                     | Not Available Before 1998 | Not Available Before 1998     |
| 1996          |   |                           |                           | 81,195                 |                           |                           |                           |                           |                           |                           |                           | 7,434                     |                           |                               |
| 1995          |   |                           |                           | 56,006                 |                           |                           |                           |                           |                           |                           |                           | Not Available Before 1996 |                           |                               |
| 1994          |   |                           |                           | 30,670                 |                           |                           |                           |                           |                           |                           |                           |                           |                           |                               |
| 1993          |   |                           |                           | 15,877                 |                           |                           |                           |                           |                           |                           |                           |                           |                           |                               |
| 1992          |   |                           |                           | 6,394                  |                           |                           |                           |                           |                           |                           |                           |                           |                           |                               |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances.

<sup>2</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>3</sup> From 2001 through 2010, includes real estate mortgage investment conduits and other structured securities backed by Ginnie Mae mortgage-backed securities.

**Table 14b. Freddie Mac Mortgage Assets Detail – Part 2,  
Mortgage-Related Securities, Private-Label Detail**

| End of Period | Mortgage-Related Securities (\$ in Millions) <sup>1</sup> |                           |                           |                           |                           |                           |                           |                           |                          |
|---------------|---|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|--------------------------|
|               | Private-Label   |                           |                           |                           |                           |                           |                           |                           |                          |
|               | Single-Family   |                           |                           |                           |                           |                           |                           | Multifamily (\$)          | Total Private-Label (\$) |
|               | Manufactured Housing (\$)                                 | Subprime                  |                           | Alt-A <sup>2</sup>        |                           | Other <sup>3</sup>        |                           |                           |                          |
|               |   | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      | Fixed-Rate (\$)           | Adjustable-Rate (\$)      |                           |                          |
| 4Q10          | 1,080   | 363                       | 53,855                    | 2,405                     | 16,438                    | 0                         | 15,646                    | 58,728                    | 148,515                  |
| 3Q10          | 1,105   | 370                       | 55,366                    | 2,496                     | 16,946                    | 0                         | 16,104                    | 59,628                    | 152,015                  |
| 2Q10          | 1,139   | 377                       | 57,053                    | 2,574                     | 17,506                    | 0                         | 16,603                    | 60,445                    | 155,697                  |
| 1Q10          | 1,170   | 385                       | 59,058                    | 2,654                     | 18,146                    | 0                         | 17,206                    | 61,388                    | 160,007                  |
| Annual Data   |   |                           |                           |                           |                           |                           |                           |                           |                          |
| 2010          | 1,080   | 363                       | 53,855                    | 2,405                     | 16,438                    | 0                         | 15,646                    | 58,728                    | 148,515                  |
| 2009          | 1,201   | 395                       | 61,179                    | 2,845                     | 18,594                    | 0                         | 17,687                    | 61,915                    | 163,816                  |
| 2008          | 1,326   | 438                       | 74,413                    | 3,266                     | 21,801                    | 0                         | 19,606                    | 64,191                    | 185,041                  |
| 2007          | 1,472   | 498                       | 100,827                   | 3,720                     | 26,343                    | 0                         | 21,250                    | 64,804                    | 218,914                  |
| 2006          | 1,510   | 408                       | 121,691                   | 3,626                     | 31,743                    | 0                         | 20,893                    | 44,760                    | 224,631                  |
| 2005          | 1,680   | Not Available Before 2006 | Not Available Before 2006 | Not Available Before 2006 | Not Available Before 2006 | 4,749                     | 181,678                   | 43,487                    | 231,594                  |
| 2004          | 1,816   |                           |                           |                           |                           | 8,243                     | 115,168                   | 41,184                    | 166,411                  |
| 2003          | 2,085   |                           |                           |                           |                           | Not Available Before 2004 | Not Available Before 2004 | Not Available Before 2004 | 107,301                  |
| 2002          | 2,394   |                           |                           |                           |                           |                           |                           |                           | 70,752                   |
| 2001          | 2,462   |                           |                           |                           |                           |                           |                           |                           | 42,336                   |
| 2000          | 2,896   |                           |                           |                           |                           |                           |                           |                           | 35,997                   |
| 1999          | 4,693   |                           |                           |                           |                           |                           |                           |                           | 31,019                   |
| 1998          | 1,711   |                           |                           |                           |                           |                           |                           |                           | 16,970                   |

Source : Freddie Mac

<sup>1</sup> Based on unpaid principal balances.<sup>2</sup> Includes nonagency mortgage-related securities backed by home equity lines of credit.<sup>3</sup> Consists of nonagency mortgage-related securities backed by option ARM loans. Before 2006, includes securities principally backed by subprime and Alt-A mortgage loans. ARM stands for adjustable-rate mortgage.

**Table 14b. Freddie Mac Mortgage Assets Detail – Part 3,  
Mortgage-Related Securities**

| End of Period      | Mortgage-Related Securities (\$ in Millions) |   | (\$ in Millions)   |   |
|--------------------|--|---|--|---|
|                    | Mortgage Revenue Bonds <sup>1</sup><br>(\$)  | Total<br>Mortgage-Related<br>Securities <sup>1,2</sup> (\$) | Unamortized Premiums,<br>Discounts, Deferred Fees,<br>Plus Unrealized<br>Gains/Losses on Available-<br>for-Sale Securities <sup>2,3</sup> (\$) | Total Mortgage<br>Assets <sup>2,4</sup><br>(\$) |
| <b>4Q10</b>        | 9,877  | 288,693   | (24,246)   | 2,149,586                                       |
| <b>3Q10</b>        | 10,350                                       | 295,493   | (25,616)   | 2,181,774                                       |
| <b>2Q10</b>        | 10,902                                       | 310,900   | (34,209)   | 2,220,915                                       |
| <b>1Q10</b>        | 11,376                                       | 329,968   | (42,571)   | 2,240,445                                       |
| <b>Annual Data</b> |  |   |  |   |
| <b>2010</b>        | 9,877  | 288,693   | (24,246)   | 2,149,586                                       |
| <b>2009</b>        | 11,854                                       | 616,456   | (38,298)   | 716,974   |
| <b>2008</b>        | 12,869                                       | 693,286   | (56,015)   | 748,747   |
| <b>2007</b>        | 14,935                                       | 638,655   | (10,771)   | 710,042   |
| <b>2006</b>        | 13,834                                       | 638,112   | (3,957)  | 700,002   |
| <b>2005</b>        | 11,321                                       | 648,865   | (843)  | 709,503   |
| <b>2004</b>        | 9,077  | 591,901   | 11,321   | 664,582   |
| <b>2003</b>        | 7,772  | 585,497   | 14,764   | 660,531   |
| <b>2002</b>        | 7,640  | 503,386   | 22,627   | 589,899   |
| <b>2001</b>        | 7,257  | 434,847   | 6,130  | 503,769   |
| <b>2000</b>        | 6,953  | 326,453   | (242)  | 385,451   |
| <b>1999</b>        | 5,690  | 267,767   | (1,529)  | 322,914   |
| <b>1998</b>        | 4,640  | 197,925   | 661  | 255,670   |
| <b>1997</b>        | 3,031  | Not Available<br>Before 1998                                | 122  | 164,543   |
| <b>1996</b>        | 1,787  |   | 71   | 137,826   |
| <b>1995</b>        | Not Available<br>Before 1996                 |   | 282  | 107,706   |
| <b>1994</b>        |  |   | Not Available<br>Before 1995   | 73,171  |
| <b>1993</b>        |  |   |  | 55,938  |
| <b>1992</b>        |  |   |  | 33,629  |
| <b>1991</b>        |  |   |  | 26,667  |
| <b>1990</b>        |  |   |  | 21,520  |
| <b>1989</b>        |  |   |  | 21,448  |
| <b>1988</b>        |  |   |  | 16,918  |
| <b>1987</b>        |  |   |  | 12,354  |
| <b>1986</b>        |  |   |  | 13,093  |
| <b>1985</b>        |  |   |  | 13,547  |
| <b>1984</b>        |  |   |  | 10,018  |
| <b>1983</b>        |  |   |  | 7,485   |
| <b>1982</b>        |  |   |  | 4,679   |
| <b>1981</b>        |  |   |  | 5,178   |
| <b>1980</b>        |  |   |  | 5,006   |
| <b>1979</b>        |  |   |  | 4,003   |
| <b>1978</b>        |  |   |  | 3,038   |
| <b>1977</b>        |  |   |  | 3,204   |
| <b>1976</b>        |  |   |  | 4,175   |
| <b>1975</b>        |  |   |  | 4,878   |
| <b>1974</b>        |  |   |  | 4,469   |
| <b>1973</b>        |  |   |  | 2,521   |
| <b>1972</b>        |  |   |  | 1,726   |
| <b>1971</b>        |  |   |  | 935   |

Source: Freddie Mac

<sup>1</sup> Based on unpaid principal balances.

<sup>2</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, significantly changed the presentation of these items in the financial statements. Consequently, financial results for 2010 are not directly comparable to previous years.

<sup>3</sup> Includes premiums, discounts, deferred fees, impairments of unpaid principal balances and other basis adjustments on mortgage loans and mortgage-related securities plus unrealized gains or losses on available-for-sale mortgage-related securities. Amounts before 2006 include mortgage-backed securities residuals at fair value.

<sup>4</sup> Excludes allowance for loan losses.



Table 15. Freddie Mac Financial Derivatives

| End of Period      | Financial Derivatives – Notional Amount Outstanding (\$ in Millions) |  |                                 |  |  |   |                                      |                               |                         |            |
|--------------------|--|--|---------------------------------|--|--|---|--------------------------------------|-------------------------------|-------------------------|------------|
|                    | Interest Rate Swaps <sup>1</sup> (\$)                                | Interest Rate Caps, Floors, and Corridors (\$) | Foreign Currency Contracts (\$) | OTC Futures, Options, and Forward Rate Agreements (\$) | Treasury-Based Contracts <sup>2</sup> (\$) | Exchange-Traded Futures, Options and Other Derivatives (\$) | Credit Derivatives <sup>3</sup> (\$) | Commitments <sup>4</sup> (\$) | Other <sup>5</sup> (\$) | Total (\$) |
| <b>4Q10</b>        | 721,259  | 28,000   | 2,021                           | 207,694  | 4,193                                      | 211,590   | 12,833                               | 14,292                        | 3,614                   | 1,205,496  |
| <b>3Q10</b>        | 683,017  | 28,035   | 2,057                           | 239,309  | 24,728                                     | 224,854   | 13,378                               | 22,914                        | 3,580                   | 1,241,872  |
| <b>2Q10</b>        | 789,649  | 35,638   | 4,594                           | 275,225  | 510  | 187,904   | 13,665                               | 27,817                        | 3,531                   | 1,338,533  |
| <b>1Q10</b>        | 692,155  | 35,701   | 5,278                           | 285,766  | 1,000                                      | 141,499   | 13,829                               | 13,642                        | 3,514                   | 1,192,384  |
| <b>Annual Data</b> |  |  |                                 |  |  |   |                                      |                               |                         |            |
| <b>2010</b>        | 721,259  | 28,000   | 2,021                           | 207,694  | 4,193                                      | 211,590   | 12,833                               | 14,292                        | 3,614                   | 1,205,496  |
| <b>2009</b>        | 705,707  | 35,945   | 5,669                           | 287,193  | 540  | 159,659   | 14,198                               | 13,872                        | 3,521                   | 1,226,304  |
| <b>2008</b>        | 766,158  | 36,314   | 12,924                          | 251,426  | 28,403                                     | 106,610   | 13,631                               | 108,273                       | 3,281                   | 1,327,020  |
| <b>2007</b>        | 711,829  | 0  | 20,118                          | 313,033  | 0  | 196,270   | 7,667                                | 72,662                        | 1,302                   | 1,322,881  |
| <b>2006</b>        | 440,879  | 0  | 29,234                          | 252,022  | 2,000                                      | 20,400  | 2,605                                | 10,012                        | 957                     | 758,109    |
| <b>2005</b>        | 341,008  | 45   | 37,850                          | 193,502  | 0  | 86,252  | 2,414                                | 21,961                        | 738                     | 683,770    |
| <b>2004</b>        | 178,739  | 9,897  | 56,850                          | 224,204  | 2,001                                      | 127,109   | 10,926                               | 32,952                        | 114,100                 | 756,778    |
| <b>2003</b>        | 287,592  | 11,308   | 46,512                          | 349,650  | 8,549                                      | 122,619   | 15,542                               | 89,520                        | 152,579                 | 1,083,871  |
| <b>2002</b>        | 290,096  | 11,663   | 43,687                          | 277,869  | 17,900                                     | 210,646   | 17,301                               | 191,563                       | 117,219                 | 1,177,944  |
| <b>2001</b>        | 442,771  | 12,178   | 23,995                          | 187,486  | 13,276                                     | 358,500   | 10,984                               | 121,588                       | 0                       | 1,170,778  |
| <b>2000</b>        | 277,888  | 12,819   | 10,208                          | 113,064  | 2,200                                      | 22,517  | N/A                                  | N/A                           | 35,839                  | 474,535    |
| <b>1999</b>        | 126,580  | 19,936   | 1,097                           | 172,750  | 8,894                                      | 94,987  | Not Applicable Before 2000           | Not Applicable Before 2000    | 0                       | 424,244    |
| <b>1998</b>        | 57,555   | 21,845   | 1,464                           | 63,000   | 11,542                                     | 157,832   |                                      |                               | 0                       | 313,238    |
| <b>1997</b>        | 54,172   | 21,995   | 1,152                           | 6,000  | 12,228                                     | 0   |                                      |                               | 0                       | 95,547     |
| <b>1996</b>        | 46,646   | 14,095   | 544                             | 0  | 651  | 0   |                                      |                               | 0                       | 61,936     |
| <b>1995</b>        | 45,384   | 13,055   | 0                               | 0  | 24   | 0   |                                      |                               | 0                       | 58,463     |
| <b>1994</b>        | 21,834   | 9,003  | 0                               | 0  | 0  | 0   |                                      |                               | 0                       | 30,837     |
| <b>1993</b>        | 17,888   | 1,500  | 0                               | 0  | 0  | 0   |                                      |                               | 0                       | 19,388     |

Source : Freddie Mac

N/A = not available

<sup>1</sup> Amounts for the fourth quarter and full year 2010 include exchange-settled interest rate swaps.<sup>2</sup> Amounts for years 2002 through 2010 include exchange-traded.<sup>3</sup> Amounts included in "Other" in 2000, not applicable in prior years.<sup>4</sup> Commitments include: (a) commitments to purchase and sell investments in securities and mortgage loans; and (b) commitments to purchase and extinguish or issue debt securities of consolidated trusts. Years before 2004 include commitments to purchase and sell various debt securities.<sup>5</sup> Includes prepayment management agreement and swap guarantee derivatives.

**Table 16. Freddie Mac Nonmortgage Investments**

| End of Period      | Nonmortgage Investments (\$ in Millions) <sup>1</sup> |                              |                            |  |                         |            |
|--------------------|---|------------------------------|----------------------------|--|-------------------------|------------|
|                    | Federal Funds and Eurodollars (\$)                    | Asset-Backed Securities (\$) | Repurchase Agreements (\$) | Commercial Paper and Corporate Debt (\$) | Other <sup>2</sup> (\$) | Total (\$) |
| <b>4Q10</b>        | 3,750   | 44                           | 42,774                     | 441                                      | 27,411                  | 74,420     |
| <b>3Q10</b>        | 10,745  | 1,004                        | 34,200                     | 442                                      | 29,548                  | 75,939     |
| <b>2Q10</b>        | 6,180   | 1,994                        | 35,888                     | 442                                      | 27,286                  | 71,790     |
| <b>1Q10</b>        | 4,140   | 3,067                        | 21,351                     | 441                                      | 29,568                  | 58,567     |
| <b>Annual Data</b> |   |                              |                            |  |                         |            |
| <b>2010</b>        | 3,750   | 44                           | 42,774                     | 441                                      | 27,411                  | 74,420     |
| <b>2009</b>        | 0   | 4,045                        | 7,000                      | 439                                      | 14,787                  | 26,271     |
| <b>2008</b>        | 0   | 8,794                        | 10,150                     | 0  | 0                       | 18,944     |
| <b>2007</b>        | 162   | 16,588                       | 6,400                      | 18,513                                   | 0                       | 41,663     |
| <b>2006</b>        | 19,778  | 32,122                       | 3,250                      | 11,191                                   | 2,273                   | 68,614     |
| <b>2005</b>        | 9,909   | 30,578                       | 5,250                      | 5,764                                    | 5,823                   | 57,324     |
| <b>2004</b>        | 18,647  | 21,733                       | 13,550                     | 0  | 8,097                   | 62,027     |
| <b>2003</b>        | 7,567   | 16,648                       | 13,015                     | 5,852                                    | 10,042                  | 53,124     |
| <b>2002</b>        | 6,129   | 34,790                       | 16,914                     | 13,050                                   | 20,988                  | 91,871     |
| <b>2001</b>        | 15,868  | 26,297                       | 17,632                     | 21,712                                   | 8,340                   | 89,849     |
| <b>2000</b>        | 2,267   | 19,063                       | 7,488                      | 7,302                                    | 7,401                   | 43,521     |
| <b>1999</b>        | 10,545  | 10,305                       | 4,961                      | 3,916                                    | 4,425                   | 34,152     |
| <b>1998</b>        | 20,524  | 7,124                        | 1,756                      | 7,795                                    | 4,961                   | 42,160     |
| <b>1997</b>        | 2,750   | 2,200                        | 6,982                      | 3,203                                    | 1,295                   | 16,430     |
| <b>1996</b>        | 9,968   | 2,086                        | 6,440                      | 1,058                                    | 2,696                   | 22,248     |
| <b>1995</b>        | 110   | 499                          | 9,217                      | 1,201                                    | 1,684                   | 12,711     |
| <b>1994</b>        | 7,260   | 0                            | 5,913                      | 1,234                                    | 3,401                   | 17,808     |
| <b>1993</b>        | 9,267   | 0                            | 4,198                      | 1,438                                    | 3,322                   | 18,225     |
| <b>1992</b>        | 5,632   | 0                            | 4,060                      | 53                                       | 2,797                   | 12,542     |
| <b>1991</b>        | 2,949   | 0                            | 4,437                      | 0  | 2,570                   | 9,956      |
| <b>1990</b>        | 1,112   | 0                            | 9,063                      | 0  | 1,949                   | 12,124     |
| <b>1989</b>        | 3,527   | 0                            | 5,765                      | 0  | 1,758                   | 11,050     |
| <b>1988</b>        | 4,469   | 0                            | 9,107                      | 0  | 1,031                   | 14,607     |
| <b>1987</b>        | 3,177   | 0                            | 5,859                      | 0  | 1,431                   | 10,467     |

Source : Freddie Mac

<sup>1</sup> Adoption of new accounting standards related to transfers of financial assets and consolidation of variable interest entities effective January 1, 2010, changed accounting for nonmortgage investments. Consequently, values for 2010 are not directly comparable to previous years.

<sup>2</sup> Beginning in 2009, amounts include Treasury bills and notes. For 2004 through 2006, amounts include obligations of states and municipalities classified as available-for-sale securities. For 2003 and previous years, amounts include nonmortgage-related securities classified as trading, debt securities issued by the U.S. Treasury and other U.S. government agencies, obligations of states and municipalities, and preferred stock.

Table 17. Freddie Mac Mortgage Asset Quality

| End of Period | Mortgage Asset Quality                          |   |   |   |   |
|---------------|---|---|---|---|---|
|               | Single-Family Delinquency Rate <sup>1</sup> (%) | Multifamily Delinquency Rate <sup>2</sup> (%) | Credit Losses/Average Total Mortgage Portfolio <sup>3</sup> (%) | REO/Total Mortgage Portfolio <sup>4</sup> (%) | Credit Enhanced <sup>5</sup> /Total Mortgage Portfolio <sup>4</sup> (%) |
| 4Q10          | 3.84  | 0.26  | 0.65  | 0.36  | 15.0  |
| 3Q10          | 3.80  | 0.31  | 0.87  | 0.38  | 15.0  |
| 2Q10          | 3.96  | 0.22  | 0.79  | 0.31  | 16.0  |
| 1Q10          | 4.13  | 0.22  | 0.60  | 0.27  | 16.0  |
| Annual Data   |   |   |   |   |   |
| 2010          | 3.84  | 0.26  | 0.73  | 0.36  | 15.0  |
| 2009          | 3.98  | 0.20  | 0.41  | 0.23  | 16.0  |
| 2008          | 1.83  | 0.05  | 0.20  | 0.17  | 18.0  |
| 2007          | 0.65  | 0.02  | 0.03  | 0.08  | 17.0  |
| 2006          | 0.42  | 0.06  | 0.01  | 0.04  | 16.0  |
| 2005          | 0.53  | 0.00  | 0.01  | 0.04  | 17.0  |
| 2004          | 0.73  | 0.06  | 0.01  | 0.05  | 19.0  |
| 2003          | 0.86  | 0.05  | 0.01  | 0.06  | 21.0  |
| 2002          | 0.77  | 0.13  | 0.01  | 0.05  | 27.4  |
| 2001          | 0.62  | 0.15  | 0.01  | 0.04  | 34.7  |
| 2000          | 0.49  | 0.04  | 0.01  | 0.04  | 31.8  |
| 1999          | 0.39  | 0.14  | 0.02  | 0.05  | 29.9  |
| 1998          | 0.50  | 0.37  | 0.04  | 0.08  | 27.3  |
| 1997          | 0.55  | 0.96  | 0.08  | 0.11  | 15.9  |
| 1996          | 0.58  | 1.96  | 0.10  | 0.13  | 10.0  |
| 1995          | 0.60  | 2.88  | 0.11  | 0.14  | 9.7   |
| 1994          | 0.55  | 3.79  | 0.08  | 0.18  | 7.2   |
| 1993          | 0.61  | 5.92  | 0.11  | 0.16  | 5.3   |
| 1992          | 0.64  | 6.81  | 0.09  | 0.12  | Not Available Before 1993   |
| 1991          | 0.61  | 5.42  | 0.08  | 0.14  |   |
| 1990          | 0.45  | 2.63  | 0.08  | 0.12  |   |
| 1989          | 0.38  | 2.53  | 0.08  | 0.09  |   |
| 1988          | 0.36  | 2.24  | 0.07  | 0.09  |   |
| 1987          | 0.36  | 1.49  | 0.07  | 0.08  |   |
| 1986          | 0.42  | 1.07  | Not Available Before 1987                                       | 0.07  |   |
| 1985          | 0.42  | 0.63  |   | 0.10  |   |
| 1984          | 0.46  | 0.42  |   | 0.15  |   |
| 1983          | 0.47  | 0.58  |   | 0.15  |   |
| 1982          | 0.54  | 1.04  |   | 0.12  |   |
| 1981          | 0.61  | Not Available Before 1982                     |   | 0.07  |   |
| 1980          | 0.44  |   |   | 0.04  |   |
| 1979          | 0.31  |   |   | 0.02  |   |
| 1978          | 0.21  |   |   | 0.02  |   |
| 1977          | Not Available Before 1978                       |   |   | 0.03  |   |
| 1976          |   |   |   | 0.04  |   |
| 1975          |   |   |   | 0.03  |   |
| 1974          |   |   |   | 0.02  |   |

Source : Freddie Mac

<sup>1</sup> Based on the number of mortgages 90 days or more delinquent or in foreclosure and excludes modified loans if the borrower is less than 90 days past due under the modified terms. Rates are based on loans in the single-family credit guarantee portfolio, which excludes that portion of Freddie Mac real estate mortgage investment conduits (REMICs) and other structured securities that are backed by Ginnie Mae mortgage-backed securities (MBS). Rates for years 2005 and 2007 also exclude other guarantee transactions. Single-family delinquency rates for 2008 through 2010 include other guarantee transactions.

<sup>2</sup> Before 2008, rates were based on the net carrying value of mortgages 60 days or more delinquent or in foreclosure and exclude other guarantee transactions. Beginning in 2008, rates were based on the unpaid principal balance of loans 60 days or more delinquent or in foreclosure and include other guarantee transactions.

<sup>3</sup> Credit losses equal to real estate owned operations expense (income) plus net charge-offs and exclude other market-based valuation losses. Calculated as credit losses divided by the average balance of mortgage loans in the total mortgage portfolio, excluding that portion of REMICs and other structured securities backed by Ginnie Mae MBS.

<sup>4</sup> Calculated based on the balance of mortgage loans in the total mortgage portfolio, excluding that portion of REMICs and other structured securities backed by Ginnie Mae certificates.

<sup>5</sup> Includes loans for which the lender or a third party has retained a portion of the primary default risk by pledging collateral or agreeing to accept losses on loans that default. In many cases, the lender's or third party's risk is limited to a specific level of losses at the time the credit enhancement becomes effective.

**Table 18. Freddie Mac Capital<sup>1</sup>**

| End of Period      | Capital (\$ in Millions)    |  |   |                                |   |   |                                    |   |   |  |
|--------------------|-----------------------------|--|---|--------------------------------|---|---|------------------------------------|---|---|--|
|                    | Minimum Capital Requirement |  |   | Risk-Based Capital Requirement |   |   | Market Capitalization <sup>6</sup> | Core Capital/ Total Assets <sup>7</sup> | Core Capital/ Total Assets plus Unconsolidated MBS <sup>8</sup> | Common Share Dividend Payout Rate <sup>9</sup> |
|                    | Core Capital (\$)           | Minimum Capital Requirement <sup>2</sup> | Regulatory Capital Surplus (Deficit) <sup>2</sup> | Total Capital <sup>3</sup>     | Risk-Based Capital Requirement <sup>4</sup> | Risk-Based Capital Surplus (Deficit) <sup>5</sup> |                                    |   |   |  |
| <b>4Q10</b>        | (52,570)                    | 25,987                                   | (78,557)  | N/A                            | N/A   | N/A   | 195                                | (2.32)                                  | (2.37)  | N/A  |
| <b>3Q10</b>        | (50,858)                    | 26,383                                   | (77,241)  | N/A                            | N/A   | N/A   | 195                                | (2.22)                                  | (2.27)  | N/A  |
| <b>2Q10</b>        | (46,791)                    | 27,724                                   | (74,515)  | N/A                            | N/A   | N/A   | 266                                | (2.00)                                  | (2.04)  | N/A  |
| <b>1Q10</b>        | (40,784)                    | 28,337                                   | (69,121)  | N/A                            | N/A   | N/A   | 824                                | (1.73)                                  | (1.77)  | N/A  |
| <b>Annual Data</b> |                             |  |   |                                |   |   |                                    |   |   |  |
| <b>2010</b>        | (52,570)                    | 25,987                                   | (78,557)  | N/A                            | N/A   | N/A   | 195                                | (2.32)                                  | (2.37)  | N/A  |
| <b>2009</b>        | (23,774)                    | 28,352                                   | (52,126)  | N/A                            | N/A   | N/A   | 953                                | (2.82)                                  | (1.02)  | N/A  |
| <b>2008</b>        | (13,174)                    | 28,200                                   | (41,374)  | N/A                            | N/A   | N/A   | 473                                | (1.55)                                  | (0.58)  | N/M  |
| <b>2007</b>        | 37,867                      | 26,473                                   | 11,394  | 40,929                         | 14,102                                      | 26,827  | 22,018                             | 4.77                                    | 1.74  | N/M  |
| <b>2006</b>        | 35,365                      | 25,607                                   | 9,758   | 36,742                         | 15,320                                      | 21,422  | 44,896                             | 4.39                                    | 1.83  | 63.9   |
| <b>2005</b>        | 35,043                      | 24,791                                   | 10,252  | 36,781                         | 11,282                                      | 25,499  | 45,269                             | 4.35                                    | 1.97  | 56.4   |
| <b>2004</b>        | 34,106                      | 23,715                                   | 10,391  | 34,691                         | 11,108                                      | 23,583  | 50,898                             | 4.29                                    | 2.07  | 30.7   |
| <b>2003</b>        | 32,416                      | 23,362                                   | 9,054   | 33,436                         | 5,426                                       | 28,010  | 40,158                             | 4.03                                    | 2.08  | 15.6   |
| <b>2002</b>        | 28,990                      | 22,339                                   | 6,651   | 24,222                         | 4,743                                       | 19,479  | 40,590                             | 3.85                                    | 1.96  | 6.2  |
| <b>2001</b>        | 20,181                      | 19,014                                   | 1,167   | Not Applicable Before 2002     | Not Applicable Before 2002                  | Not Applicable Before 2002                        | 45,473                             | 3.15                                    | 1.56  | 18.9   |
| <b>2000</b>        | 14,380                      | 14,178                                   | 202   |                                |   |   | 47,702                             | 3.13                                    | 1.39  | 20.0   |
| <b>1999</b>        | 12,692                      | 12,287                                   | 405   |                                |   |   | 32,713                             | 3.28                                    | 1.37  | 20.1   |
| <b>1998</b>        | 10,715                      | 10,333                                   | 382   |                                |   |   | 44,797                             | 3.33                                    | 1.34  | 20.7   |
| <b>1997</b>        | 7,376                       | 7,082                                    | 294   |                                |   |   | 28,461                             | 3.79                                    | 1.10  | 21.1   |
| <b>1996</b>        | 6,743                       | 6,517                                    | 226   |                                |   |   | 19,161                             | 3.88                                    | 1.04  | 21.3   |
| <b>1995</b>        | 5,829                       | 5,584                                    | 245   |                                |   |   | 14,932                             | 4.25                                    | 0.98  | 21.1   |
| <b>1994</b>        | 5,169                       | 4,884                                    | 285   |                                |   |   | 9,132                              | 4.87                                    | 0.91  | 20.5   |
| <b>1993</b>        | 4,437                       | 3,782                                    | 655   |                                |   |   | 9,005                              | 5.29                                    | 0.85  | 21.6   |
| <b>1992</b>        | Not Applicable Before 1993  | Not Applicable Before 1993               | Not Applicable Before 1993                        |                                |   |   | 8,721                              | Not Applicable Before 1993              | Not Applicable Before 1993                                      | 23.1   |
| <b>1991</b>        |                             |  |   |                                |   |   | 8,247                              |   |   | 21.6   |
| <b>1990</b>        |                             |  |   |                                |   |   | 2,925                              |   |   | 23.2   |
| <b>1989</b>        |                             |  |   |                                |   |   | 4,024                              |   |   | 24.3   |

Source : Freddie Mac and FHFA

N/A = not applicable

N/M = not meaningful

<sup>1</sup> On October 9, 2008, FHFA suspended capital classifications of Freddie Mac. As of the fourth quarter of 2008, neither the existing statutory nor the FHFA-directed regulatory capital requirements are binding and will not be binding during conservatorship.

<sup>2</sup> Beginning in the fourth quarter of 2003, FHFA directed Freddie Mac to maintain an additional 30 percent capital in excess of the statutory minimum capital requirement. On March 19, 2008, FHFA announced a reduction in the mandatory target capital surplus from 30 percent to 20 percent above the statutory minimum capital requirements. The minimum capital requirement and minimum capital surplus numbers stated in this table do not reflect the additional capital requirement. Minimum capital surplus is the difference between core capital and the minimum capital requirement.

<sup>3</sup> Total capital includes core capital and general reserves for mortgage and foreclosure losses.

<sup>4</sup> The risk-based capital requirement is the amount of total capital that an Enterprise must hold to absorb projected losses flowing from future adverse interest rate and credit risk conditions and is specified by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992.

<sup>5</sup> The difference between total capital and risk-based capital requirement.

<sup>6</sup> Stock price at the end of the period multiplied by the number of outstanding common shares.

<sup>7</sup> The prospective adoption of the changes in the accounting standards related to transfers of financial assets and consolidation of variable interest entities significantly changed the presentation of total assets on the balance sheet. Consequently, our financial results for 2010 are not directly comparable to years before 2010.

<sup>8</sup> Includes unconsolidated mortgage-backed securities (MBS) held by third parties. Before 2010, Freddie Mac MBS held by third parties was not consolidated.

<sup>9</sup> Common dividends paid as a percentage of net income available to common stockholders.

Table 19. Federal Home Loan Banks Combined Statement of Income

| End of Period      | (\$ in Millions)         |                         |  |                                      |                 |
|--------------------|--------------------------|-------------------------|--|--------------------------------------|-----------------|
|                    | Net Interest Income (\$) | Operating Expenses (\$) | Affordable Housing Program Assessment (\$) | REFCORP Assessment <sup>1</sup> (\$) | Net Income (\$) |
| <b>4Q10</b>        | 1,266                    | 258                     | 76   | 160                                  | 698             |
| <b>3Q10</b>        | 1,407                    | 206                     | 70   | 154                                  | 732             |
| <b>2Q10</b>        | 1,326                    | 201                     | 43   | 94                                   | 326             |
| <b>1Q10</b>        | 1,235                    | 195                     | 40   | 90                                   | 325             |
| <b>Annual Data</b> |                          |                         |  |                                      |                 |
| <b>2010</b>        | 5,234                    | 860                     | 229  | 498                                  | 2,081           |
| <b>2009</b>        | 5,432                    | 813                     | 258  | 572                                  | 1,855           |
| <b>2008</b>        | 5,243                    | 732                     | 188  | 412                                  | 1,206           |
| <b>2007</b>        | 4,516                    | 714                     | 318  | 703                                  | 2,827           |
| <b>2006</b>        | 4,293                    | 671                     | 295  | 647                                  | 2,612           |
| <b>2005</b>        | 4,207                    | 657                     | 282  | 625                                  | 2,525           |
| <b>2004</b>        | 4,171                    | 547                     | 225  | 505                                  | 1,994           |
| <b>2003</b>        | 3,877                    | 450                     | 218  | 490                                  | 1,885           |
| <b>2002</b>        | 3,722                    | 393                     | 168  | 375                                  | 1,507           |
| <b>2001</b>        | 3,446                    | 364                     | 220  | 490                                  | 1,970           |
| <b>2000</b>        | 3,313                    | 333                     | 246  | 553                                  | 2,211           |
| <b>1999</b>        | 2,534                    | 282                     | 199  | Not Applicable Before 2000           | 2,128           |
| <b>1998</b>        | 2,116                    | 258                     | 169  |                                      | 1,778           |
| <b>1997</b>        | 1,772                    | 229                     | 137  |                                      | 1,492           |
| <b>1996</b>        | 1,584                    | 219                     | 119  |                                      | 1,330           |
| <b>1995</b>        | 1,401                    | 213                     | 104  |                                      | 1,300           |
| <b>1994</b>        | 1,230                    | 207                     | 100  |                                      | 1,023           |
| <b>1993</b>        | 954                      | 197                     | 75   |                                      | 884             |
| <b>1992</b>        | 736                      | 207                     | 50   |                                      | 850             |
| <b>1991</b>        | 1,051                    | 264                     | 50   |                                      | 1,159           |
| <b>1990</b>        | 1,510                    | 279                     | 60   |                                      | 1,468           |

Source : Federal Home Loan Bank System Office of Finance

<sup>1</sup> Before 2000, the Federal Home Loan Banks charged a \$300 million annual capital distribution to the Resolution Funding Corporation (REFCORP) directly to retained earnings.

**Table 20. Federal Home Loan Banks Combined Balance Sheet**

| End of Period      | (\$ in Millions)  |                                      |                          |                                  |                               |                    |                        |                                 | Regulatory Capital/Total Assets |
|--------------------|-------------------|--------------------------------------|--------------------------|----------------------------------|-------------------------------|--------------------|------------------------|---------------------------------|---------------------------------|
|                    | Total Assets (\$) | Advances to Members Outstanding (\$) | Mortgage Loans Held (\$) | Mortgage-Related Securities (\$) | Consolidated Obligations (\$) | Capital Stock (\$) | Retained Earnings (\$) | Regulatory Capital <sup>1</sup> |                                 |
| <b>4Q10</b>        | 878,109           | 478,589                              | 61,191                   | 146,881                          | 800,998                       | 41,735             | 7,552                  | 56,353                          | 6.42                            |
| <b>3Q10</b>        | 903,574           | 499,616                              | 64,301                   | 150,749                          | 813,938                       | 43,385             | 7,020                  | 57,418                          | 6.35                            |
| <b>2Q10</b>        | 937,111           | 540,318                              | 66,795                   | 150,719                          | 852,941                       | 43,668             | 6,399                  | 58,118                          | 6.20                            |
| <b>1Q10</b>        | 965,747           | 572,043                              | 68,790                   | 155,969                          | 875,949                       | 44,182             | 6,203                  | 58,541                          | 6.06                            |
| <b>Annual Data</b> |                   |                                      |                          |                                  |                               |                    |                        |                                 |                                 |
| <b>2010</b>        | 878,109           | 478,589                              | 61,191                   | 146,881                          | 800,998                       | 41,735             | 7,552                  | 56,356                          | 6.42                            |
| <b>2009</b>        | 1,015,583         | 631,159                              | 71,437                   | 152,028                          | 934,876                       | 44,982             | 6,033                  | 59,153                          | 5.82                            |
| <b>2008</b>        | 1,349,053         | 928,638                              | 87,361                   | 169,170                          | 1,258,267                     | 49,551             | 2,936                  | 58,625                          | 4.35                            |
| <b>2007</b>        | 1,271,800         | 875,061                              | 91,610                   | 143,513                          | 1,178,916                     | 50,253             | 3,689                  | 55,050                          | 4.33                            |
| <b>2006</b>        | 1,016,469         | 640,681                              | 97,974                   | 130,228                          | 934,214                       | 42,001             | 3,143                  | 46,247                          | 4.55                            |
| <b>2005</b>        | 997,389           | 619,860                              | 105,240                  | 122,328                          | 915,901                       | 42,043             | 2,600                  | 46,102                          | 4.62                            |
| <b>2004</b>        | 924,751           | 581,216                              | 113,922                  | 124,417                          | 845,738                       | 40,092             | 1,744                  | 42,990                          | 4.65                            |
| <b>2003</b>        | 822,418           | 514,037                              | 113,438                  | 97,867                           | 740,721                       | 37,703             | 1,098                  | 38,801                          | 4.72                            |
| <b>2002</b>        | 763,052           | 489,338                              | 60,455                   | 96,386                           | 673,383                       | 35,186             | 716                    | 35,904                          | 4.71                            |
| <b>2001</b>        | 696,254           | 472,540                              | 27,641                   | 86,730                           | 621,003                       | 33,288             | 749                    | 34,039                          | 4.89                            |
| <b>2000</b>        | 653,687           | 437,861                              | 16,149                   | 77,385                           | 591,606                       | 30,537             | 728                    | 31,266                          | 4.78                            |
| <b>1999</b>        | 583,212           | 395,747                              | 2,026                    | 62,531                           | 525,419                       | 28,361             | 654                    | 29,019                          | 4.98                            |
| <b>1998</b>        | 434,002           | 288,189                              | 966                      | 52,232                           | 376,715                       | 22,287             | 465                    | 22,756                          | 5.24                            |
| <b>1997</b>        | 348,575           | 202,265                              | 37                       | 47,072                           | 304,493                       | 18,833             | 341                    | 19,180                          | 5.50                            |
| <b>1996</b>        | 292,035           | 161,372                              | 0                        | 42,960                           | 251,316                       | 16,540             | 336                    | 16,883                          | 5.78                            |
| <b>1995</b>        | 272,661           | 132,264                              | 0                        | 38,029                           | 231,417                       | 14,850             | 366                    | 15,213                          | 5.58                            |
| <b>1994</b>        | 239,076           | 125,893                              | 0                        | 29,967                           | 200,196                       | 13,095             | 271                    | 13,373                          | 5.59                            |
| <b>1993</b>        | 178,897           | 103,131                              | 0                        | 22,217                           | 138,741                       | 11,450             | 317                    | 11,766                          | 6.58                            |
| <b>1992</b>        | 162,134           | 79,884                               | 0                        | 20,123                           | 114,652                       | 10,102             | 429                    | 10,531                          | 6.50                            |
| <b>1991</b>        | 154,556           | 79,065                               | 0                        | Not Available Before 1992        | 108,149                       | 10,200             | 495                    | Not Available Before 1992       | Not Available Before 1992       |
| <b>1990</b>        | 165,742           | 117,103                              | 0                        |                                  | 118,437                       | 11,104             | 521                    |                                 |                                 |

Source : Federal Home Loan Bank System Office of Finance

<sup>1</sup> The sum of regulatory capital amounts reported in call reports filed by each Federal Home Loan Bank plus the combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.



**Table 21. Federal Home Loan Banks Net Income**

| End of Period      | (\$ in Millions) |        |         |            |        |            |              |          |            |               |         |        |                      |              |
|--------------------|------------------|--------|---------|------------|--------|------------|--------------|----------|------------|---------------|---------|--------|----------------------|--------------|
|                    | Atlanta          | Boston | Chicago | Cincinnati | Dallas | Des Moines | Indianapolis | New York | Pittsburgh | San Francisco | Seattle | Topeka | Combining Adjustment | System Total |
| <b>4Q10</b>        | 81               | 24     | 132     | 44         | 23     | 50         | 41           | 87       | 21         | 140           | (3)     | 32     | 26                   | 698          |
| <b>3Q10</b>        | 74               | 41     | 117     | 36         | 27     | 39         | 51           | 79       | 45         | 137           | 10      | 22     | 54                   | 732          |
| <b>2Q10</b>        | 75               | 19     | 116     | 41         | 39     | 14         | (13)         | 56       | (68)       | 29            | 8       | 10     | 0                    | 326          |
| <b>1Q10</b>        | 48               | 23     | 1       | 43         | 16     | 30         | 32           | 54       | 10         | 93            | 6       | (30)   | (1)                  | 325          |
| <b>Annual Data</b> |                  |        |         |            |        |            |              |          |            |               |         |        |                      |              |
| <b>2010</b>        | 278              | 107    | 366     | 164        | 105    | 133        | 111          | 276      | 8          | 399           | 21      | 34     | 79                   | 2081         |
| <b>2009</b>        | 283              | (187)  | (65)    | 268        | 148    | 146        | 120          | 571      | (37)       | 515           | (162)   | 237    | 18                   | 1855         |
| <b>2008</b>        | 254              | (116)  | (119)   | 236        | 79     | 127        | 184          | 259      | 19         | 461           | (199)   | 28     | (7)                  | 1206         |
| <b>2007</b>        | 445              | 198    | 111     | 269        | 130    | 101        | 122          | 323      | 237        | 652           | 71      | 150    | 18                   | 2827         |
| <b>2006</b>        | 414              | 196    | 188     | 253        | 122    | 89         | 118          | 285      | 216        | 542           | 26      | 136    | 27                   | 2612         |
| <b>2005</b>        | 344              | 135    | 244     | 220        | 242    | 228        | 153          | 230      | 192        | 369           | 2       | 136    | 30                   | 2525         |
| <b>2004</b>        | 294              | 90     | 365     | 227        | 65     | 100        | 131          | 161      | 119        | 293           | 83      | 93     | (27)                 | 1994         |
| <b>2003</b>        | 207              | 92     | 437     | 171        | 113    | 135        | 134          | 46       | 69         | 323           | 144     | 88     | (74)                 | 1885         |
| <b>2002</b>        | 267              | 76     | 205     | 178        | (50)   | 46         | 81           | 234      | (27)       | 292           | 147     | 58     | 0                    | 1507         |
| <b>2001</b>        | 162              | 113    | 164     | 189        | 114    | 74         | 104          | 285      | 85         | 425           | 178     | 77     | 0                    | 1970         |
| <b>2000</b>        | 298              | 146    | 129     | 193        | 129    | 124        | 127          | 277      | 173        | 377           | 139     | 99     | 0                    | 2211         |
| <b>1999</b>        | 282              | 137    | 131     | 173        | 109    | 132        | 125          | 244      | 184        | 332           | 165     | 90     | 24                   | 2128         |
| <b>1998</b>        | 221              | 116    | 111     | 176        | 99     | 116        | 111          | 186      | 143        | 294           | 154     | 81     | (30)                 | 1778         |
| <b>1997</b>        | 192              | 103    | 99      | 135        | 87     | 110        | 98           | 144      | 110        | 249           | 129     | 65     | (29)                 | 1492         |
| <b>1996</b>        | 165              | 96     | 92      | 116        | 95     | 111        | 80           | 131      | 97         | 219           | 118     | 58     | (48)                 | 1330         |
| <b>1995</b>        | 159              | 92     | 73      | 91         | 91     | 103        | 74           | 136      | 82         | 200           | 87      | 50     | 63                   | 1300         |
| <b>1994</b>        | 120              | 69     | 57      | 68         | 78     | 76         | 71           | 126      | 58         | 196           | 75      | 45     | (16)                 | 1024         |
| <b>1993</b>        | 114              | 57     | 49      | 33         | 39     | 50         | 53           | 117      | 62         | 163           | 122     | 35     | (12)                 | 884          |
| <b>1992</b>        | 124              | 52     | 51      | 41         | 26     | 47         | 59           | 141      | 58         | 131           | 93      | 33     | (5)                  | 850          |
| <b>1991</b>        | 158              | 88     | 58      | 51         | 38     | 46         | 64           | 156      | 57         | 316           | 58      | 64     | 7                    | 1159         |

Source : Federal Home Loan Bank System Office of Finance

**Table 22. Federal Home Loan Banks Advances Outstanding**

| End of Period      | (\$ in Millions) |        |         |            |        |            |              |          |            |               |         |        |              |
|--------------------|------------------|--------|---------|------------|--------|------------|--------------|----------|------------|---------------|---------|--------|--------------|
|                    | Atlanta          | Boston | Chicago | Cincinnati | Dallas | Des Moines | Indianapolis | New York | Pittsburgh | San Francisco | Seattle | Topeka | System Total |
| <b>4Q10</b>        | 89,258           | 28,035 | 18,901  | 30,181     | 25,456 | 29,253     | 18,275       | 81,200   | 29,708     | 95,599        | 13,355  | 19,368 | 478,589      |
| <b>3Q10</b>        | 99,425           | 30,205 | 18,803  | 30,375     | 27,341 | 32,014     | 18,914       | 85,697   | 31,595     | 89,327        | 15,414  | 20,506 | 499,616      |
| <b>2Q10</b>        | 100,087          | 36,016 | 21,103  | 32,603     | 41,454 | 32,491     | 19,989       | 85,286   | 36,058     | 95,747        | 18,467  | 21,017 | 540,318      |
| <b>1Q10</b>        | 105,474          | 35,175 | 21,291  | 32,969     | 42,627 | 33,027     | 21,582       | 88,859   | 36,824     | 112,139       | 19,865  | 22,211 | 572,043      |
| <b>Annual Data</b> |                  |        |         |            |        |            |              |          |            |               |         |        |              |
| <b>2010</b>        | 89,258           | 28,035 | 18,901  | 30,181     | 25,456 | 29,253     | 18,275       | 81,200   | 29,708     | 95,599        | 13,355  | 19,368 | 478,589      |
| <b>2009</b>        | 114,580          | 37,591 | 24,148  | 35,818     | 47,263 | 35,720     | 22,443       | 94,349   | 41,177     | 133,559       | 22,257  | 22,254 | 631,159      |
| <b>2008</b>        | 165,856          | 56,926 | 38,140  | 53,916     | 60,920 | 41,897     | 31,249       | 109,153  | 62,153     | 235,664       | 36,944  | 35,820 | 928,638      |
| <b>2007</b>        | 142,867          | 55,680 | 30,221  | 53,310     | 46,298 | 40,412     | 26,770       | 82,090   | 68,798     | 251,034       | 45,524  | 32,057 | 875,061      |
| <b>2006</b>        | 101,476          | 37,342 | 26,179  | 41,956     | 41,168 | 21,855     | 22,282       | 59,013   | 49,335     | 183,669       | 27,961  | 28,445 | 640,681      |
| <b>2005</b>        | 101,265          | 38,068 | 24,921  | 40,262     | 46,457 | 22,283     | 25,814       | 61,902   | 47,493     | 162,873       | 21,435  | 27,087 | 619,860      |
| <b>2004</b>        | 95,867           | 30,209 | 24,192  | 41,301     | 47,112 | 27,175     | 25,231       | 68,508   | 38,980     | 140,254       | 14,897  | 27,490 | 581,216      |
| <b>2003</b>        | 88,149           | 26,074 | 26,443  | 43,129     | 40,595 | 23,272     | 28,925       | 63,923   | 34,662     | 92,330        | 19,653  | 26,882 | 514,037      |
| <b>2002</b>        | 82,244           | 26,931 | 24,945  | 40,063     | 36,869 | 23,971     | 28,944       | 68,926   | 29,251     | 81,237        | 20,036  | 25,921 | 489,338      |
| <b>2001</b>        | 71,818           | 24,361 | 21,902  | 35,223     | 32,490 | 20,745     | 26,399       | 60,962   | 29,311     | 102,255       | 24,252  | 22,822 | 472,540      |
| <b>2000</b>        | 58,249           | 21,594 | 18,462  | 31,935     | 30,195 | 21,158     | 24,073       | 52,396   | 25,946     | 110,031       | 26,240  | 17,582 | 437,861      |
| <b>1999</b>        | 45,216           | 22,488 | 17,167  | 28,134     | 27,034 | 22,949     | 19,433       | 44,409   | 36,527     | 90,514        | 26,284  | 15,592 | 395,747      |
| <b>1998</b>        | 33,561           | 15,419 | 14,899  | 17,873     | 22,191 | 18,673     | 14,388       | 31,517   | 26,050     | 63,990        | 21,151  | 8,477  | 288,189      |
| <b>1997</b>        | 23,128           | 12,052 | 10,369  | 14,722     | 13,043 | 10,559     | 11,435       | 19,601   | 16,979     | 49,310        | 15,223  | 5,844  | 202,265      |
| <b>1996</b>        | 16,774           | 9,655  | 10,252  | 10,882     | 10,085 | 10,306     | 9,570        | 16,486   | 12,369     | 39,222        | 10,850  | 4,921  | 161,372      |
| <b>1995</b>        | 13,920           | 8,124  | 8,282   | 8,287      | 9,505  | 11,226     | 7,926        | 15,454   | 9,657      | 25,664        | 9,035   | 5,185  | 132,264      |
| <b>1994</b>        | 14,526           | 8,504  | 6,675   | 7,140      | 8,039  | 9,819      | 7,754        | 14,509   | 8,475      | 25,343        | 8,899   | 6,212  | 125,893      |
| <b>1993</b>        | 11,340           | 7,208  | 4,380   | 4,274      | 10,470 | 6,362      | 6,078        | 12,162   | 6,713      | 23,847        | 5,889   | 4,407  | 103,131      |
| <b>1992</b>        | 9,301            | 5,038  | 2,873   | 2,415      | 7,322  | 3,314      | 5,657        | 8,780    | 3,547      | 23,110        | 5,025   | 3,502  | 79,884       |
| <b>1991</b>        | 8,861            | 5,297  | 1,773   | 2,285      | 4,634  | 2,380      | 5,426        | 11,804   | 2,770      | 24,178        | 5,647   | 4,011  | 79,065       |

Source : Federal Home Loan Bank System Office of Finance

**Table 23. Federal Home Loan Banks Regulatory Capital<sup>1</sup>**

| End of Period      | (\$ in Millions) |        |         |            |        |            |              |          |            |               |         |        |                                   |              |
|--------------------|------------------|--------|---------|------------|--------|------------|--------------|----------|------------|---------------|---------|--------|-----------------------------------|--------------|
|                    | Atlanta          | Boston | Chicago | Cincinnati | Dallas | Des Moines | Indianapolis | New York | Pittsburgh | San Francisco | Seattle | Topeka | Combining Adjustment <sup>2</sup> | System Total |
| <b>4Q10</b>        | 8,877            | 4,004  | 3,962   | 3,887      | 2,061  | 2,746      | 2,695        | 5,304    | 4,419      | 13,640        | 2,871   | 1,826  | 64                                | 56,356       |
| <b>3Q10</b>        | 9,023            | 3,974  | 3,796   | 3,902      | 2,274  | 2,830      | 2,911        | 5,432    | 4,559      | 13,980        | 2,875   | 1,824  | 38                                | 57,418       |
| <b>2Q10</b>        | 9,349            | 3,930  | 3,644   | 3,940      | 2,675  | 2,815      | 2,863        | 5,426    | 4,379      | 14,320        | 2,865   | 1,928  | -16                               | 58,118       |
| <b>1Q10</b>        | 9,249            | 3,903  | 3,511   | 3,907      | 2,688  | 2,838      | 2,856        | 5,604    | 4,442      | 14,745        | 2,855   | 1,959  | -16                               | 58,541       |
| <b>Annual Data</b> |                  |        |         |            |        |            |              |          |            |               |         |        |                                   |              |
| <b>2010</b>        | 8,877            | 4,004  | 3,962   | 3,887      | 2,061  | 2,746      | 2,695        | 5,304    | 4,419      | 13,640        | 2,871   | 1,826  | 64                                | 56,356       |
| <b>2009</b>        | 9,185            | 3,876  | 3,502   | 4,151      | 2,897  | 2,953      | 2,830        | 5,874    | 4,415      | 14,657        | 2,848   | 1,980  | -15                               | 59,153       |
| <b>2008</b>        | 8,942            | 3,658  | 3,327   | 4,399      | 3,530  | 3,174      | 2,701        | 6,112    | 4,157      | 13,539        | 2,687   | 2,432  | -33                               | 58,625       |
| <b>2007</b>        | 8,080            | 3,421  | 3,342   | 3,877      | 2,688  | 3,125      | 2,368        | 5,025    | 4,295      | 13,859        | 2,660   | 2,336  | -26                               | 55,050       |
| <b>2006</b>        | 6,394            | 2,542  | 3,208   | 4,050      | 2,598  | 2,315      | 2,111        | 4,025    | 3,655      | 10,865        | 2,303   | 2,225  | -44                               | 46,247       |
| <b>2005</b>        | 6,225            | 2,675  | 4,507   | 4,130      | 2,796  | 2,346      | 2,349        | 3,900    | 3,289      | 9,698         | 2,268   | 1,990  | -71                               | 46,102       |
| <b>2004</b>        | 5,681            | 2,240  | 4,793   | 4,002      | 2,846  | 2,453      | 2,132        | 4,005    | 2,791      | 7,959         | 2,166   | 2,023  | -101                              | 42,990       |
| <b>2003</b>        | 5,030            | 2,490  | 4,542   | 3,737      | 2,666  | 2,226      | 1,961        | 3,765    | 2,344      | 5,858         | 2,456   | 1,800  | -74                               | 38,801       |
| <b>2002</b>        | 4,577            | 2,323  | 3,296   | 3,613      | 2,421  | 1,889      | 1,935        | 4,296    | 1,824      | 5,687         | 2,382   | 1,661  | 0                                 | 35,904       |
| <b>2001</b>        | 4,165            | 2,032  | 2,507   | 3,240      | 2,212  | 1,574      | 1,753        | 3,910    | 1,970      | 6,814         | 2,426   | 1,436  | 0                                 | 34,039       |
| <b>2000</b>        | 3,649            | 1,905  | 1,701   | 2,841      | 2,166  | 1,773      | 1,581        | 3,747    | 2,175      | 6,292         | 2,168   | 1,267  | 0                                 | 31,266       |
| <b>1999</b>        | 3,433            | 1,868  | 1,505   | 2,407      | 1,862  | 2,264      | 1,446        | 3,093    | 2,416      | 5,438         | 2,098   | 1,190  | 0                                 | 29,019       |
| <b>1998</b>        | 2,427            | 1,530  | 1,299   | 1,952      | 1,570  | 1,526      | 1,179        | 2,326    | 1,827      | 4,435         | 1,813   | 894    | -24                               | 22,756       |
| <b>1997</b>        | 2,077            | 1,344  | 1,159   | 1,694      | 1,338  | 1,320      | 1,090        | 1,881    | 1,440      | 3,545         | 1,495   | 791    | 6                                 | 19,180       |
| <b>1996</b>        | 1,846            | 1,239  | 1,091   | 1,377      | 1,150  | 1,245      | 903          | 1,616    | 1,230      | 3,150         | 1,334   | 666    | 35                                | 16,883       |
| <b>1995</b>        | 1,615            | 1,201  | 941     | 1,128      | 1,168  | 1,217      | 799          | 1,531    | 1,030      | 2,719         | 1,148   | 632    | 83                                | 15,213       |
| <b>1994</b>        | 1,488            | 1,091  | 749     | 961        | 944    | 905        | 676          | 1,281    | 924        | 2,627         | 1,094   | 612    | 20                                | 13,373       |
| <b>1993</b>        | 1,423            | 927    | 648     | 692        | 914    | 652        | 584          | 1,251    | 740        | 2,440         | 934     | 526    | 36                                | 11,766       |
| <b>1992</b>        | 1,333            | 843    | 564     | 563        | 661    | 515        | 548          | 1,181    | 566        | 2,453         | 782     | 474    | 48                                | 10,531       |
| <b>1991</b>        | 1,367            | 807    | 525     | 517        | 645    | 450        | 515          | 1,234    | 492        | 2,924         | 652     | 514    | 53                                | 10,695       |

Source : Federal Home Loan Bank System Office of Finance

<sup>1</sup> For the Federal Home Loan Bank of Chicago and for all other FHLBanks before 2005, amounts for regulatory capital are from call reports filed by each Federal Home Loan Bank. Except for the Federal Home Loan Bank of Chicago, amounts in 2005, 2006, 2007, 2008, 2009, and 2010 are as reported by the Office of Finance.

<sup>2</sup> Combining adjustment for Federal Home Loan Bank System retained earnings reported by the Office of Finance.

**Table 24. Loan Limits**

| Period                | Single-Family Conforming Loan Limits <sup>1</sup> |                 |                   |                   |
|-----------------------|---|-----------------|-------------------|-------------------|
|                       | One Unit  | Two Units       | Three Units       | Four Units        |
| 2011 <sup>2</sup>     | 417,000-729,750                                   | 533,850-934,200 | 645,300-1,129,250 | 801,950-1,403,400 |
| 2010 <sup>3</sup>     | 417,000-729,750                                   | 533,850-934,200 | 645,300-1,129,250 | 801,950-1,403,400 |
| 2009 <sup>4</sup>     | 417,000-729,750                                   | 533,850-934,200 | 645,300-1,129,250 | 801,950-1,403,400 |
| 2008 <sup>5</sup>     | 417,000-729,750                                   | 533,850-934,200 | 645,300-1,129,250 | 801,950-1,403,400 |
| 2007                  | 417,000   | 533,850         | 645,300           | 801,950           |
| 2006                  | 417,000   | 533,850         | 645,300           | 801,950           |
| 2005                  | 359,650   | 460,400         | 556,500           | 691,600           |
| 2004                  | 333,700   | 427,150         | 516,300           | 641,650           |
| 2003                  | 322,700   | 413,100         | 499,300           | 620,500           |
| 2002                  | 300,700   | 384,900         | 465,200           | 578,150           |
| 2001                  | 275,000   | 351,950         | 425,400           | 528,700           |
| 2000                  | 252,700   | 323,400         | 390,900           | 485,800           |
| 1999                  | 240,000   | 307,100         | 371,200           | 461,350           |
| 1998                  | 227,150   | 290,650         | 351,300           | 436,600           |
| 1997                  | 214,600   | 274,550         | 331,850           | 412,450           |
| 1996                  | 207,000   | 264,750         | 320,050           | 397,800           |
| 1995                  | 203,150   | 259,850         | 314,100           | 390,400           |
| 1994                  | 203,150   | 259,850         | 314,100           | 390,400           |
| 1993                  | 203,150   | 259,850         | 314,100           | 390,400           |
| 1992                  | 202,300   | 258,800         | 312,800           | 388,800           |
| 1991                  | 191,250   | 244,650         | 295,650           | 367,500           |
| 5/1/1990 – 12/31/1990 | 187,450   | 239,750         | 289,750           | 360,150           |
| 1989 – 4/30/1990      | 187,600   | 239,950         | 290,000           | 360,450           |
| 1988                  | 168,700   | 215,800         | 260,800           | 324,150           |
| 1987                  | 153,100   | 195,850         | 236,650           | 294,150           |
| 1986                  | 133,250   | 170,450         | 205,950           | 256,000           |
| 1985                  | 115,300   | 147,500         | 178,200           | 221,500           |
| 1984                  | 114,000   | 145,800         | 176,100           | 218,900           |
| 1983                  | 108,300   | 138,500         | 167,200           | 207,900           |
| 1982                  | 107,000   | 136,800         | 165,100           | 205,300           |
| 1981                  | 98,500  | 126,000         | 152,000           | 189,000           |
| 1980                  | 93,750  | 120,000         | 145,000           | 170,000           |
| 10/27/1977 – 1979     | 75,000  | 75,000          | 75,000            | 75,000            |
| 1975 – 10/26/1977     | 55,000  | 55,000          | 55,000            | 55,000            |

Sources: Department of Housing and Urban Development, FHFA, Freddie Mac

<sup>1</sup> Conforming loan limits are 50 percent higher in Alaska, Hawaii, Guam, and the U.S. Virgin Islands.

<sup>2</sup> Maximum loan limits for mortgages originated through September 20, 2011, were set by Public Law 111-242 at the higher of the limits established by the Emergency Economic Stimulus Act of 2008 (EESA) and those determined under a formula prescribed by the Housing and Economic Recovery Act of 2008 (HERA).

<sup>3</sup> Maximum loan limits for mortgages originated in 2010 were set by Public Law 111-88 at the higher of the limits established by EESA and those determined under a formula prescribed by HERA. For all areas, the resulting 2010 limits were the same as those in effect for 2009.

<sup>4</sup> Loan limits for mortgages originated in 2009 were initially set under provisions of HERA, which allowed for high-cost area limits of up to \$625,500. In February 2009, however, the American Recovery and Reinvestment Act of 2009 restored the \$729,750 maximum loan limit for mortgages originated in 2009.

<sup>5</sup> EESA allowed Fannie Mae and Freddie Mac to raise the conforming loan limits in certain high-cost areas to a maximum of \$729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three-, and four-unit homes. Alaska, Hawaii, Guam, and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007, and December 31, 2008.

| Period            | FHA Single-Family Insurable Limits |                    |                   |                    |                   |                    |                   |                    |
|-------------------|------------------------------------|--------------------|-------------------|--------------------|-------------------|--------------------|-------------------|--------------------|
|                   | One Unit                           |                    | Two Units         |                    | Three Units       |                    | Four Units        |                    |
|                   | Low-Cost Area Max                  | High-Cost Area Max | Low-Cost Area Max | High-Cost Area Max | Low-Cost Area Max | High-Cost Area Max | Low-Cost Area Max | High-Cost Area Max |
| 2011 <sup>1</sup> | 271,050                            | 729,750            | 347,000           | 934,200            | 419,400           | 1,129,250          | 521,250           | 1,403,400          |
| 2010 <sup>2</sup> | 271,050                            | 729,750            | 347,000           | 934,200            | 419,400           | 1,129,250          | 521,250           | 1,403,400          |
| 2009 <sup>3</sup> | 271,050                            | 729,750            | 347,000           | 934,200            | 419,400           | 1,129,250          | 521,250           | 1,403,400          |
| 2008 <sup>4</sup> | 271,050                            | 729,750            | 347,000           | 934,200            | 419,400           | 1,129,250          | 521,250           | 1,403,400          |
| 2007              | 200,160                            | 362,790            | 256,248           | 464,449            | 309,744           | 561,411            | 384,936           | 697,696            |
| 2006              | 200,160                            | 362,790            | 256,248           | 464,449            | 309,744           | 561,411            | 384,936           | 697,696            |
| 2005              | 172,632                            | 312,895            | 220,992           | 400,548            | 267,120           | 484,155            | 331,968           | 601,692            |
| 2004              | 160,176                            | 290,319            | 205,032           | 371,621            | 247,824           | 449,181            | 307,992           | 558,236            |
| 2003              | 154,896                            | 280,749            | 198,288           | 359,397            | 239,664           | 434,391            | 297,840           | 539,835            |
| 2002              | 144,336                            | 261,609            | 184,752           | 334,863            | 223,296           | 404,724            | 277,512           | 502,990            |
| 2001              | 132,000                            | 239,250            | 168,936           | 306,196            | 204,192           | 370,098            | 253,776           | 459,969            |
| 2000              | 121,296                            | 219,849            | 155,232           | 281,358            | 187,632           | 340,083            | 233,184           | 422,646            |
| 1999              | 115,200                            | 208,800            | 147,408           | 267,177            | 178,176           | 322,944            | 221,448           | 401,375            |
| 1998              | 109,032                            | 197,621            | 139,512           | 252,866            | 168,624           | 305,631            | 209,568           | 379,842            |
| 1997              | 81,546                             | 170,362            | 104,310           | 205,875            | 126,103           | 248,888            | 156,731           | 309,338            |

Source: Federal Housing Administration

<sup>1</sup> Maximum loan limits for mortgages originated in 2010 were set by Public Law 111-242 at the higher of the limits established by EESA and those determined under a formula prescribed by HERA.

<sup>2</sup> Maximum loan limits for mortgages originated in 2010 were set by Public Law 111-88 at the higher of the limits established by EESA and those determined under a formula prescribed by HERA. For all areas, the resulting 2010 limits were the same as those in effect for 2009.

<sup>3</sup> Loan limits for mortgages originated in 2009 were initially set under provisions of HERA, which allowed for high-cost area limits of up to \$625,500. In February 2009, however, the American Recovery and Reinvestment Act of 2009 restored the \$729,750 maximum loan limit for mortgages originated in 2009.

<sup>4</sup> EESA allowed the Federal Housing Administration to increase the single-family insurable limits to a maximum of \$729,750 for one-unit homes in the continental United States. Higher limits applied to two-, three-, and four-unit homes. Alaska, Hawaii, Guam, and the Virgin Islands have higher maximum limits. The limits applied to loans originated between July 1, 2007, and December 31, 2008.

Table 25. Mortgage Interest Rates

| Period      | Average Commitment Rates on Loans |                                  | Effective Rates on Closed Loans |                              |
|-------------|-----------------------------------|----------------------------------|---------------------------------|------------------------------|
|             | Conventional                      |                                  | Conventional                    |                              |
|             | 30-Year Fixed-Rate<br>(\$)        | One-Year Adjustable-Rate<br>(\$) | Fixed-Rate<br>(\$)              | Adjustable-Rate<br>(\$)      |
| 4Q10        | 4.4                               | 3.3                              | 4.6                             | N/A                          |
| 3Q10        | 4.4                               | 3.6                              | 4.8                             | N/A                          |
| 2Q10        | 4.9                               | 4.0                              | 5.1                             | N/A                          |
| 1Q10        | 5.0                               | 4.3                              | 5.1                             | N/A                          |
| Annual Data |                                   |                                  |                                 |                              |
| 2010        | 4.7                               | 3.8                              | 4.9                             | 4.3                          |
| 2009        | 5.0                               | 4.7                              | 5.2                             | N/A                          |
| 2008        | 6.0                               | 5.2                              | 6.2                             | 5.8                          |
| 2007        | 6.3                               | 5.6                              | 6.5                             | 6.3                          |
| 2006        | 6.4                               | 5.5                              | 6.7                             | 6.4                          |
| 2005        | 5.9                               | 4.5                              | 6.1                             | 5.5                          |
| 2004        | 5.8                               | 3.9                              | 6.0                             | 5.2                          |
| 2003        | 5.8                               | 3.8                              | 5.9                             | 5.0                          |
| 2002        | 6.5                               | 4.6                              | 6.7                             | 5.7                          |
| 2001        | 7.0                               | 5.8                              | 7.1                             | 6.4                          |
| 2000        | 8.1                               | 7.0                              | 8.3                             | 7.1                          |
| 1999        | 7.4                               | 6.0                              | 7.4                             | 6.5                          |
| 1998        | 6.9                               | 5.6                              | 7.2                             | 6.5                          |
| 1997        | 7.6                               | 5.6                              | 7.9                             | 6.9                          |
| 1996        | 7.8                               | 5.7                              | 8.0                             | 7.1                          |
| 1995        | 7.9                               | 6.1                              | 8.2                             | 7.1                          |
| 1994        | 8.4                               | 5.4                              | 8.2                             | 6.4                          |
| 1993        | 7.3                               | 4.6                              | 7.5                             | 5.7                          |
| 1992        | 8.4                               | 5.6                              | 8.5                             | 6.6                          |
| 1991        | 9.3                               | 7.1                              | 9.7                             | 8.3                          |
| 1990        | 10.1                              | 8.4                              | 10.4                            | 9.2                          |
| 1989        | 10.3                              | 8.8                              | 10.5                            | 9.4                          |
| 1988        | 10.3                              | 7.9                              | 10.4                            | 8.5                          |
| 1987        | 10.2                              | 7.8                              | 9.9                             | 8.5                          |
| 1986        | 10.2                              | 8.4                              | 10.5                            | 9.4                          |
| 1985        | 12.4                              | 10.1                             | 12.4                            | 10.9                         |
| 1984        | 13.9                              | 11.5                             | 13.2                            | 12.0                         |
| 1983        | 13.2                              | Not Available<br>Before 1984     | 13.0                            | 12.3                         |
| 1982        | 16.0                              |                                  | Not Available<br>Before 1983    | Not Available<br>Before 1983 |
| 1981        | 16.6                              |                                  |                                 |                              |
| 1980        | 13.7                              |                                  |                                 |                              |
| 1979        | 11.2                              |                                  |                                 |                              |
| 1978        | 9.6                               |                                  |                                 |                              |
| 1977        | 8.9                               |                                  |                                 |                              |
| 1976        | 8.9                               |                                  |                                 |                              |
| 1975        | 9.1                               |                                  |                                 |                              |
| 1974        | 9.2                               |                                  |                                 |                              |
| 1973        | 8.0                               |                                  |                                 |                              |
| 1972        | 7.4                               |                                  |                                 |                              |

Sources: Freddie Mac for average commitment rates; FHFA for effective rates

N/A = not available

**Table 26. Housing Market Activity<sup>1</sup>**

| Period                  | Housing Starts<br>(units in thousands) |                               |                         | Home Sales<br>(units in thousands)      |  |
|-------------------------|--|-------------------------------|-------------------------|---|--|
|                         | One- to Four-Unit<br>Housing Starts    | Multifamily Housing<br>Starts | Total Housing<br>Starts | Sales of New One- to<br>Four-Unit Homes | Sales of Existing One-<br>to Four-Unit Homes |
| <b>4Q10<sup>2</sup></b> | N/A                                    | 91                            | 539                     | 300                                     | 4,747  |
| <b>3Q10<sup>2</sup></b> | N/A                                    | 137                           | 584                     | 291                                     | 4,170  |
| <b>2Q10<sup>2</sup></b> | N/A                                    | 100                           | 602                     | 336                                     | 5,570  |
| <b>1Q10<sup>2</sup></b> | N/A                                    | 83                            | 615                     | 358                                     | 5,183  |
| <b>Annual Data</b>      |  |                               |                         |   |  |
| <b>2010</b>             | 483                                    | 104                           | 587                     | 323                                     | 4,907  |
| <b>2009</b>             | 457                                    | 97                            | 554                     | 375                                     | 5,156  |
| <b>2008</b>             | 640                                    | 266                           | 906                     | 485                                     | 4,913  |
| <b>2007</b>             | 1,078                                  | 277                           | 1,355                   | 776                                     | 5,652  |
| <b>2006</b>             | 1,508                                  | 293                           | 1,801                   | 1,051                                   | 6,478  |
| <b>2005</b>             | 1,757                                  | 311                           | 2,068                   | 1,283                                   | 7,076  |
| <b>2004</b>             | 1,653                                  | 303                           | 1,956                   | 1,203                                   | 6,778  |
| <b>2003</b>             | 1,533                                  | 315                           | 1,848                   | 1,086                                   | 6,175  |
| <b>2002</b>             | 1,397                                  | 308                           | 1,705                   | 973                                     | 5,632  |
| <b>2001</b>             | 1,310                                  | 293                           | 1,603                   | 908                                     | 5,335  |
| <b>2000</b>             | 1,270                                  | 299                           | 1,569                   | 877                                     | 5,174  |
| <b>1999</b>             | 1,334                                  | 307                           | 1,641                   | 880                                     | 5,183  |
| <b>1998</b>             | 1,314                                  | 303                           | 1,617                   | 886                                     | 4,966  |
| <b>1997</b>             | 1,178                                  | 296                           | 1,474                   | 804                                     | 4,371  |
| <b>1996</b>             | 1,206                                  | 271                           | 1,477                   | 757                                     | 4,167  |
| <b>1995</b>             | 1,110                                  | 244                           | 1,354                   | 667                                     | 3,852  |
| <b>1994</b>             | 1,234                                  | 224                           | 1,457                   | 670                                     | 3,886  |
| <b>1993</b>             | 1,155                                  | 133                           | 1,288                   | 666                                     | 3,739  |
| <b>1992</b>             | 1,061                                  | 139                           | 1,200                   | 610                                     | 3,432  |
| <b>1991</b>             | 876                                    | 138                           | 1,014                   | 509                                     | 3,145  |
| <b>1990</b>             | 932                                    | 260                           | 1,193                   | 534                                     | 3,186  |
| <b>1989</b>             | 1,059                                  | 318                           | 1,376                   | 650                                     | 3,290  |
| <b>1988</b>             | 1,140                                  | 348                           | 1,488                   | 676                                     | 3,594  |
| <b>1987</b>             | 1,212                                  | 409                           | 1,621                   | 671                                     | 3,526  |
| <b>1986</b>             | 1,263                                  | 542                           | 1,805                   | 750                                     | 3,565  |
| <b>1985</b>             | 1,166                                  | 576                           | 1,742                   | 688                                     | 3,214  |
| <b>1984</b>             | 1,206                                  | 544                           | 1,750                   | 639                                     | 2,868  |
| <b>1983</b>             | 1,181                                  | 522                           | 1,703                   | 623                                     | 2,719  |
| <b>1982</b>             | 743                                    | 320                           | 1,062                   | 412                                     | 1,990  |
| <b>1981</b>             | 797                                    | 288                           | 1,084                   | 436                                     | 2,419  |
| <b>1980</b>             | 962                                    | 331                           | 1,292                   | 545                                     | 2,973  |
| <b>1979</b>             | 1,316                                  | 429                           | 1,745                   | 709                                     | 3,827  |
| <b>1978</b>             | 1,558                                  | 462                           | 2,020                   | 817                                     | 3,986  |
| <b>1977</b>             | 1,573                                  | 414                           | 1,987                   | 819                                     | 3,650  |
| <b>1976</b>             | 1,248                                  | 289                           | 1,538                   | 646                                     | 3,064  |
| <b>1975</b>             | 956                                    | 204                           | 1,160                   | 549                                     | 2,476  |
| <b>1974</b>             | 956                                    | 382                           | 1,338                   | 519                                     | 2,272  |
| <b>1973</b>             | 1,250                                  | 795                           | 2,045                   | 634                                     | 2,334  |
| <b>1972</b>             | 1,450                                  | 906                           | 2,357                   | 718                                     | 2,252  |
| <b>1971</b>             | 1,272                                  | 781                           | 2,052                   | 656                                     | 2,018  |

Sources: U.S. Census Bureau for housing starts and sales of new one- to four-unit properties; National Association of Realtors® for sales of existing one- to four-unit properties

N/A = not available

<sup>1</sup> Components may not add to totals due to rounding.

<sup>2</sup> Seasonally adjusted annual rates.



**Table 27. Weighted Repeat Sales House Price Index (Annual Data)<sup>1</sup>**

| Period             | USA    | New England | Mid-Atlantic | South Atlantic | East North Central | West North Central | East South Central | West South Central | Mountain | Pacific |
|--------------------|--------|-------------|--------------|----------------|--------------------|--------------------|--------------------|--------------------|----------|---------|
| <b>4Q10</b>        | (4.23) | (1.71)      | (1.75)       | (5.92)         | (2.91)             | (3.82)             | (4.73)             | (2.30)             | (7.82)   | (5.86)  |
| <b>3Q10</b>        | (2.98) | (0.63)      | (1.04)       | (5.72)         | (3.24)             | (1.69)             | (2.40)             | 0.12               | (6.63)   | (2.73)  |
| <b>2Q10</b>        | (1.85) | (2.49)      | (0.69)       | (3.57)         | (2.81)             | (0.89)             | (2.04)             | 0.79               | (5.57)   | 0.37    |
| <b>1Q10</b>        | (2.87) | (3.29)      | (1.12)       | (5.14)         | (3.80)             | (2.08)             | (2.39)             | 0.17               | (7.16)   | (0.68)  |
| <b>Annual Data</b> |        |             |              |                |                    |                    |                    |                    |          |         |
| <b>2010</b>        | (4.23) | (1.71)      | (1.75)       | (5.92)         | (2.91)             | (3.82)             | (4.73)             | (2.30)             | (7.82)   | (5.86)  |
| <b>2009</b>        | (1.87) | (1.32)      | (1.23)       | (3.10)         | (1.79)             | 0.12               | (0.24)             | 1.37               | (7.04)   | (2.93)  |
| <b>2008</b>        | (9.21) | (5.70)      | (4.32)       | (13.29)        | (6.71)             | (3.80)             | (3.31)             | (1.44)             | (13.39)  | (20.78) |
| <b>2007</b>        | (2.34) | (1.97)      | 0.42         | (3.08)         | (3.31)             | (0.52)             | 1.84               | 3.50               | (3.10)   | (9.75)  |
| <b>2006</b>        | 3.14   | (1.68)      | 2.84         | 5.10           | (0.08)             | 2.27               | 6.13               | 6.42               | 7.14     | 0.48    |
| <b>2005</b>        | 10.19  | 6.52        | 10.17        | 14.51          | 3.58               | 4.94               | 7.40               | 6.68               | 17.80    | 17.98   |
| <b>2004</b>        | 10.10  | 10.43       | 12.28        | 12.64          | 4.44               | 5.76               | 5.14               | 4.38               | 12.74    | 21.32   |
| <b>2003</b>        | 7.78   | 10.76       | 11.04        | 8.33           | 4.66               | 5.50               | 4.05               | 3.21               | 6.87     | 15.28   |
| <b>2002</b>        | 7.71   | 13.53       | 11.87        | 8.18           | 4.55               | 5.70               | 3.41               | 3.67               | 5.66     | 13.86   |
| <b>2001</b>        | 6.77   | 12.03       | 9.33         | 7.34           | 4.91               | 6.17               | 3.38               | 3.96               | 5.36     | 9.76    |
| <b>2000</b>        | 6.93   | 12.46       | 8.44         | 6.36           | 5.19               | 6.42               | 2.78               | 5.53               | 5.56     | 11.10   |
| <b>1999</b>        | 6.18   | 10.22       | 6.86         | 5.76           | 5.10               | 5.49               | 3.86               | 5.51               | 5.63     | 8.61    |
| <b>1998</b>        | 5.67   | 7.98        | 4.73         | 4.51           | 4.92               | 6.42               | 4.70               | 5.53               | 4.73     | 8.79    |
| <b>1997</b>        | 3.34   | 4.46        | 2.14         | 3.38           | 3.46               | 3.73               | 2.79               | 3.04               | 3.18     | 4.11    |
| <b>1996</b>        | 2.84   | 2.48        | 1.00         | 2.74           | 4.51               | 4.04               | 3.93               | 2.45               | 3.80     | 1.18    |
| <b>1995</b>        | 2.56   | 0.70        | (0.19)       | 2.41           | 4.80               | 4.55               | 4.69               | 3.10               | 4.75     | (0.78)  |
| <b>1994</b>        | 2.94   | 0.68        | (0.40)       | 3.46           | 4.91               | 4.45               | 5.08               | 3.16               | 8.66     | (1.11)  |
| <b>1993</b>        | 2.77   | (1.77)      | 0.10         | 2.41           | 4.66               | 6.15               | 4.66               | 4.65               | 9.48     | (2.50)  |
| <b>1992</b>        | 2.77   | (0.47)      | 1.83         | 2.18           | 4.77               | 4.33               | 4.12               | 3.77               | 6.68     | (1.08)  |
| <b>1991</b>        | 3.12   | (2.21)      | 1.52         | 3.04           | 4.72               | 3.76               | 4.06               | 3.98               | 5.58     | 1.87    |
| <b>1990</b>        | 1.19   | (7.18)      | (2.51)       | 0.41           | 3.79               | 1.22               | 0.42               | 0.50               | 2.34     | 5.65    |
| <b>1989</b>        | 5.58   | 0.83        | 2.55         | 4.43           | 5.93               | 3.05               | 2.72               | 2.40               | 2.73     | 18.32   |
| <b>1988</b>        | 5.66   | 4.19        | 6.69         | 5.82           | 6.43               | 2.76               | 2.55               | (1.84)             | 0.68     | 16.42   |
| <b>1987</b>        | 5.36   | 15.02       | 15.88        | 5.69           | 7.62               | 2.30               | 3.15               | (8.23)             | (2.97)   | 8.57    |
| <b>1986</b>        | 7.21   | 21.14       | 17.47        | 6.50           | 7.17               | 3.77               | 5.36               | (0.22)             | 2.60     | 6.38    |
| <b>1985</b>        | 5.71   | 22.39       | 13.55        | 5.12           | 4.81               | 3.65               | 5.37               | (1.44)             | 2.22     | 4.63    |
| <b>1984</b>        | 4.65   | 15.11       | 11.22        | 4.51           | 2.83               | 3.43               | 4.12               | 0.04               | 2.57     | 4.04    |
| <b>1983</b>        | 4.29   | 13.62       | 10.86        | 3.79           | 4.54               | 4.35               | 3.42               | 1.43               | (0.99)   | 0.75    |
| <b>1982</b>        | 2.99   | 7.29        | 6.93         | 4.26           | (4.19)             | 1.74               | 5.23               | 5.53               | 5.20     | 3.07    |
| <b>1981</b>        | 4.19   | 6.58        | 2.15         | 4.46           | 2.18               | 1.12               | 0.63               | 10.52              | 7.89     | 4.58    |
| <b>1980</b>        | 6.54   | 5.72        | 8.61         | 9.41           | 1.81               | 3.56               | 4.22               | 8.30               | 5.78     | 10.23   |
| <b>1979</b>        | 12.41  | 14.56       | 15.42        | 11.88          | 8.35               | 10.42              | 9.01               | 14.12              | 14.50    | 16.38   |
| <b>1978</b>        | 13.42  | 17.80       | 5.25         | 10.38          | 15.13              | 13.75              | 11.96              | 16.81              | 16.90    | 16.88   |
| <b>1977</b>        | 14.15  | 8.15        | 12.15        | 8.63           | 13.68              | 15.46              | 11.16              | 13.86              | 17.69    | 25.43   |
| <b>1976</b>        | 8.32   | 6.84        | (0.85)       | 5.30           | 8.48               | 8.13               | 5.42               | 10.05              | 11.22    | 19.93   |

Source: FHFA

<sup>1</sup> Percentage changes based on FHFA's purchase-only index for 1992 through 2010 and all-transactions index for prior years. Annual data are measured based on fourth quarter-to-fourth quarter percentage change. Quarterly data for 2010 reflect changes over the previous four quarters.

**Regional Divisions**

New England: Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island, Vermont

Mid-Atlantic: New Jersey, New York, Pennsylvania

South Atlantic: Washington, D.C., Delaware, Florida, Georgia, Maryland, North Carolina, South Carolina, Virginia, West Virginia

East North Central: Illinois, Indiana, Michigan, Ohio, Wisconsin

West North Central: Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

East South Central: Alabama, Kentucky, Mississippi, Tennessee

West South Central: Arkansas, Louisiana, Oklahoma, Texas

Mountain: Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming

Pacific: Alaska, California, Hawaii, Oregon, Washington



# Federal Housing Finance Agency

## KEY MANAGEMENT OFFICIALS AS OF DECEMBER 31, 2010

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*Deputy Director of the Division of Enterprise Regulation*

**Wanda DeLeo**

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*Senior Associate Director,  
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